

POLITICAL ECONOMY

A Condensed Course

L. LEONTYEV



INTERNATIONAL PUBLISHERS New York

Translated from the Russian
Designed by Elga Dorokhova
Translation © Progress Publishers, 1974
First U.S. Edition by International Publishers, 1975
Second Printing, 1978

ISBN 0-7178-0412-7
Library of Congress Catalog Card No. 75-10971
Printed in the United States of America

CONTENTS

	<i>Page</i>
<i>Chapter I.</i> The Subject Matter of Political Economy	7
<i>Chapter II.</i> Pre-capitalist Modes of Production	18
THE CAPITALIST SYSTEM	
<i>Chapter III.</i> Capitalist Commodity Production	33
<i>Chapter IV.</i> The Essence of Capitalist Exploitation	43
<i>Chapter V.</i> Distribution of Surplus Value Among Various Groups of Exploiters	63
<i>Chapter VI.</i> Capitalist Reproduction and Economic Crises	80
<i>Chapter VII.</i> Basic Features of Imperialism	88
<i>Chapter VIII.</i> Imperialism's Place in History. State-Monopoly Capitalism. General Crisis of Capitalism	105
SOCIALISM AND COMMUNISM	
<i>Chapter IX.</i> The Period of Transition from Capitalism to Socialism	119
<i>Chapter X.</i> Socialist Economic System	133
<i>Chapter XI.</i> The Planned Development of Socialist Economy	148
<i>Chapter XII.</i> Cost Accounting	171
<i>Chapter XIII.</i> Socialist Organisation of Social Labour	191
<i>Chapter XIV.</i> Socialist Principles of Distribution	203
<i>Chapter XV.</i> Socialist Reproduction. From Socialism to Com- munism	215
<i>Chapter XVI.</i> The World Socialist System of Economy	237

Chapter I

THE SUBJECT MATTER OF POLITICAL ECONOMY

Before commencing the study of any science it is essential to ascertain its subject matter.

Political economy is the science that deals with the laws governing the production and distribution of the material means of subsistence in human society at various stages of its development. Its subject matter is the social structure of production.

Natural and social sciences Sciences help people understand the surrounding world which exists independently of their will or consciousness and of which they themselves are a part. This world embraces both nature and social life. Political economy is one of the social sciences which investigate the laws governing the development of various spheres of human activity.

Completely negating the possibility of acquiring a scientific knowledge of social life, some people maintain that social development is wholly unlike natural development which is governed by strict laws and where identical conditions always yield identical results. But not so in the life of society where, they claim, everything is accidental, spontaneous and nothing can be predicted. Therefore it is outstanding people—great thinkers, rulers, generals—that shape history at will.

This view is profoundly erroneous. People do make history, and on the surface it may seem that social development is a chain of accidents. Yet this does not mean that it is impossible to fathom the actual causes underlying the actions of people, including outstanding personalities. A scientific analysis of social development shows that definite laws operate in what at first glance appears to be a chain of disconnected phenomena. This being the case social life can be studied with no less success than the development of nature.

Then why do some people say that it is impossible to gain a scientific knowledge of social life?

The reason is obvious. Since genuine social science shows that the historical doom of capitalism and the triumph of communism are foregone conclusions it is rejected by the ruling classes of capitalist countries. They accept only that "science" which justifies their domination, protects their privileges and asserts that the capitalist system is eternal. Bourgeois ideologists claim that there are no laws of social development guiding the movement of society from lower to higher forms.

As regards the working class, it is vitally interested in discovering the laws of social development, in a genuine flourishing of social science. Such a science is Marxism-Leninism since it was the first to place the study of social life on a sound scientific footing. It appeared as a result of the mounting requirements of the working-class struggle.

It was the theory of scientific communism that for the first time in the history of human thought disclosed the laws of social development. By acquiring a knowledge of these laws the working class armed itself with an invincible weapon in the struggle against oppression and slavery, for freedom and a life worthy of man.

Marxism-Leninism proceeds from the fact that the development of human society, like that of nature, is governed by definite laws. These are objective laws and as such are not contingent on the will and con-

sciousness of people. Moreover, in the final count they themselves determine the consciousness and the will and therefore the actions of the members of society.

The life of society is involved and many-sided. Marxism has proved that economic relations play a special role in the sum total of social relations. They are basic and primary and as such determine all other relations.

Material production—the basis of social life Economic conditions of social life are above all contingent on material production. People cannot live without food, clothes, shelter and other essential material means of life, all of which are created by human labour. People's labour activity aimed at creating material means of subsistence is called production.

Besides labour in various spheres of material production, of great importance for society is the labour of people working in other socially useful fields. It is the labour of teachers, doctors, scientists, artists, managers, law enforcement officers, and so forth.

The modern scientific and technological revolution makes the labour of scientists and the activities of research institutes and establishments all-important. This applies not only to research and development organisations, factory laboratories and specialised institutes engaged in applied sciences, but also to centres carrying on basic research. Without modern mathematics, for example, it would have been impossible to design and construct artificial satellites of the earth, spaceships, automatic machine-tools, and automatic control systems.

Principal elements of production From the hoary past to our day man's productive environment has vastly developed. In the primitive era man used the simplest tools: stones and sticks with which he knocked down fruit from trees and dug out roots and thus kept himself alive. Today people employed at huge factories and mills turn out tens of thousands of various articles.

It might seem that there is absolutely nothing in

common between the production activity of the primitive man and people living today. But science had established that at all stages of social development three basic elements are invariably present in the process of producing material wealth: human labour, objects of labour and means of labour. Labour is a purposeful activity of the human being; objects of labour are all the things upon which man's labour is used, and means of labour are all the things with the aid of which people act upon objects of labour.

Let us take a closer look at these elements.

Labour Labour is man's struggle with nature. In this struggle man employs the strength of animals, steam, electricity, chemical reactions and other forces of nature to adapt objects found in nature to his needs.

Labour is a natural condition for human life. Socio-economic formations replace one another, but labour always remains an essential condition for the existence of human society.

Labour is the exclusive attribute of man. Human labour has two fundamental features: first, it is a purposeful activity directed towards the achievement of a pre-set goal, and second, it is indispensably connected with the production of instruments of labour. Marx considered that the 18th-century American statesman and writer Benjamin Franklin was right in observing that man is an animal which produces tools.

Labour is the essential distinction between the primitive human society and the herd of apes from which it emerged as a result of a prolonged process of evolution.

Labour is not only a process thanks to which man emerged from the animal world, it is also a process which objectively unites people in definite groups or societies. Man's productive activity, his struggle against nature always take place within the framework of specific social ties of which labour is the underlying basis. Consequently labour is the foundation on which human society rests.

Objects of labour We have already said that objects of labour are all the things upon which man's labour is used. They can be objects found in nature, or objects upon which some labour has already been applied. One and the same object can be subjected to many stages of processing, and at many stages man's labour can be applied to it. Therefore in all cases it will be an object of labour.

The universal object of labour is land with its mineral wealth and waters. Nature can be likened to a gigantic storehouse which holds inexhaustible stocks of objects of labour. It is the task of the people to make the land and the seas and oceans yield these objects of labour.

The land, its mineral wealth, soils and climates are an aggregate of natural conditions which human society has at its disposal.

Means of labour The means of labour are the things, which in the process of labour man places between himself and the objects of labour, and include all those things with the aid of which he acts upon the object of his labour and transforms it.

So long as the means of labour are simple, their role is clearly manifest, as, for example, in petty handicrafts production. But the same applies to a modern large-scale production equipped with the most sophisticated machines. Whether we take a giant blast furnace or a huge metal-working machine-tool, an automatic line or the intricate equipment of a chemical factory, they are all means of labour with which man influences the object of labour.

A particularly important role in the development of material production is played by instruments of labour. These are the means of labour which can be regarded as extensions of man's natural organs—his hands, legs and brain. In the course of history the instruments of labour covered a long road of development from the stone and the stick of the primitive man to

sophisticated machines and mechanisms, electronic computers and control systems used in production, science and management.

Means of production The objects of labour and the means of labour together form the means of production. The further the society develops, the greater the significance of means of production created by human labour. They embody past labour. Political economy calls this labour embodied labour. But the means of production are nothing more than a lifeless heap of objects until people apply their labour to them. An essential condition of any production process, therefore, is the marriage of the means of production to labour power, that is, the connection of embodied and live labour.

Productive forces The productive forces of society are the means of production and labour power in their interaction. The principal productive force of society is, of course, people, their live labour power.

The productive forces grow and multiply as society develops. Instruments of labour become more perfect, and ever new materials are used in production as science and technology continue to advance. At the same time the skills of people rise and their production experience widens.

The level of development of the productive forces is an indicator of man's mastery over nature. As time advances people harness ever new forces of nature. In the distant past the discovery of fire was one of man's greatest victories over nature. But in our age man has unlocked the secrets of the atom and is well on his way to mastering outer space.

Relations of production People have never engaged in production separately. According to Marx production carried on outside of society is just as meaningless as the development of language without people living together and talking with each other.

Production is always social whatever the stage of his-

torical development. It is always conducted by more or less large communities or groups of people.

The relations arising between people in the process of production are known as relations of production, or relation of people to production. Production relations in society are not unconnected but form a definite system. In each given system the decisive role is played by relations of production between the main classes of society. For example, in a capitalist society they are the relations between the bourgeoisie and the proletariat.

The aggregate of production relations comprises the economic structure of society. This, according to Marx, is the real basis which supports the juridical and political superstructure and to which definite forms of social consciousness correspond.

In any society the dominating relations of production form a definite economic structure. Hence we have the economic structure of feudalism, capitalism, and so forth.

Mode of production The mode of production is the forces of production and relations of production taken together. Thus, a given mode of production consists of the forces of production and relations of production at a definite level of the development of human society.

History knows five basic modes of production: primitive, slave, feudal, capitalist and socialist.

The primitive-communal system was a preclass society. The slave, feudal and capitalist systems are three forms of society based on exploitation of man by man. Socialism is a system in which exploitation of man by man has been eradicated forever.

The natural process of social development takes place in the form of a progressive movement leading from the simple to the involved, from the lower to the higher. With the decline of the primitive society the transition to the slave-owning system was a step forward. Capitalism, which supplanted feudalism, was a progressive system at the time. Having fulfilled its historical mission capitalism turned into a reactionary

impediment to human progress. Capitalism gives way to a new, higher form of society, socialism, the first phase of communism.

**Exploitation
of man by man.
Its principal forms**

The exploitation of man by man means that some people live at the expense of others. The three principal forms of exploiting society, slave, feudal and capitalist, differ above all as regards the relations between the owners of the means of production and the mass of working people who create all the social wealth. The relations between the exploiting class and the exploited class are the main production relations in each of the above societies.

Slavery, feudalism and capitalism are three consecutive stages of the economic enslavement of the working people. Common to all these modes of production is that the material conditions of production and life are, in one form or another, the property of the ruling class which forces the working people to work for its benefit.

In primitive times people lived for centuries without exploiting one another; they all contributed to production and shared the scanty fruits of their labour. Their labour did not yield surplus product. If some people lived without working, at the expense of the labour of others, the latter would simply have been unable to exist.

Exploitation appeared following the break-up of the primitive society, when labour began to yield a surplus above what the producers needed for themselves. But exploitation is by no means eternal. The entire course of historical development proves that capitalism is the last social system based on exploitation.

The rise of capitalism is inevitably accompanied by the growth and exacerbation of irreconcilable contradictions, and mainly by the class contradictions between the proletariat and the bourgeoisie. Capitalism is doomed, such is the law of social development. It will inevitably be destroyed by socialist revolution. The proletariat is the grave-digger of capitalism and the cre-

ator of a new, socialist society in which there is no exploitation of man by man.

In the course of history people have greatly increased their power over nature. But in countries whose social systems are based on exploitation, the working masses are oppressed by the existing social relations. These relations prevent the bulk of the population in capitalist countries from enjoying the benefits afforded by man's increasing mastery over nature. Things are wholly different in socialist countries where the fruits of progress belong to the people and every advance in man's mastery over nature benefits the working people.

Economic laws Political economy has the task of revealing the economic laws of social development.

Any science studying a particular sphere of nature or social life aims at disclosing the laws operating in that sphere. Scientifically interpreted the concept of "law" implies an inner essential connection of phenomena. The inner connection of phenomena exists whether we like it or not. In other words, natural and social laws are objective since they are not contingent on the will and consciousness of people. But people discover and use these laws.

A knowledge of the laws of nature gives people a powerful weapon for taming its blind forces, for using them to the benefit of man; and a knowledge of the laws operating in social life provides people with a basis for their practical activities aimed at promoting social progress.

Disclosing the economic laws of capitalism, political economy defines not only the conditions for the existence of that society but also the trends of its development. In this way it lays bare the true basis of the class contradictions in bourgeois society, proves that nothing can prevent their aggravation and shows the working class the road to socialism. The laws governing the economic development of bourgeois society scientifically prove that the doom of capitalism and the triumph of communism have been decreed by history.

Investigating the character and essence of the economic laws of socialism, political economy proves that the victory of socialism in its economic competition with capitalism is historically inevitable.

Determining the laws of production and distribution of the material wealth at the various stages of social development, political economy provides the key to an understanding of the entire complex process of historical development. It teaches that the relations of production emerging at a definite level of the development of the productive forces promote their further growth for a certain period of time after which they turn into an obstacle to their advancement. Then there arises the historical necessity of removing the old production relations and replacing them with new ones. In a class-antagonistic society this takes place in the form of a revolution. Vitrally concerned with retaining its power, wealth and privileges, the ruling class resists the revolution which is carried out by the oppressed classes. The revolution smashes the obsolete forms of social life and clears the road for the further development of the productive forces.

There were many revolutions in human history. But all revolutions of the past replaced one form of exploitation by another. Only the socialist revolution destroys all exploitation of man by man. For this reason there are no opposing classes in socialist society. Socialist relations of production opened up unprecedented prospects for the development of the productive forces. As the productive forces continue to grow socialist production relations improve and gradually develop into communist production relations.

The class, party nature of political economy Political economy deals with the burning problems of the class struggle. It studies the vital interests of the main classes of capitalist society. What is more, it poses and answers the question of the very existence of that society, and, therefore, cannot be neutral in the class struggle. It is a class, a party science. The only genuinely scientific political economy is that

of the working class. Created by its great teachers, Marx, Engels and Lenin, it is being developed and enriched by all Marxist-Leninist parties in the world, by the collective thought of the international communist movement.

Marxist-Leninist political economy endows the working class and all progressive social forces with the priceless gift of scientific foresight, tremendously important for successful practical activity. It develops in parallel with the general course of historical development, in close association with practical tasks and on the basis of a generalisation of practical experience. The experience of socialist and communist construction in the socialist countries, the experience of revolutionary struggle of the working class in the capitalist countries for its vital interests, for socialism, continuously enrich economic science with new conclusions and premises generalising the new historical experience.

Chapter II

PRE-CAPITALIST MODES OF PRODUCTION

1. Primitive Society

The primeval epoch lasted for a very long time—many hundreds of thousands of years—and ended only six or seven thousand years ago. What principally distinguished human society from the animal herd was labour, the production of instruments of labour. A herd of apes devours all the fruit in a given place and then hunger chases it to another place. Instinct enables them to adjust themselves to nature passively, and no more. Human society, on the contrary, vigorously acts upon nature by its labour.

There is no impassable chasm dividing society from nature. But the emergence of human society was one of the greatest revolutionary leaps. Contrary to the unscientific assertions of the enemies of revolution to the effect that “nature does not make leaps”, nature abounds in them.

**Methods of procuring
the means of subsistence** The primitive man waged an unending, bitter struggle against nature. His first tools were stones and sticks. In a way they were an artificial extension of his bodily organs: stones of the fist, sticks of the extended arm. These simple tools enabled him to obtain more food. Simple hunting became possible.

People hunted only in groups and at whatever they managed to kill. Food was scarce and there were no stocks.

With time they learned to make cudgels, spears, knives, hooks and harpoons, which were more effective than sticks and stones, and with which they hunted for larger animals and fished.

The discovery of fire opened a new era in the life of man and enabled him to break away once and for all time from the animal kingdom.

It took an extremely long time for man to learn to make finely chiselled instruments which replaced roughly hewn stones. Stone, wood, bone and horns were his main materials for a long time. It was only much later that people learned to make metal-tools, first of copper and other native metals, later of bronze and finally of iron. The entire long prehistoric period is divided into ages: the Stone Age, the Bronze Age and the Iron Age. Each of these "ages" lasted many centuries, while the Stone Age covered tens of thousands of years.

**Simple co-operation.
Common labour and
common property**

The basic type of production relations in primitive society was simple co-operation: people worked jointly, performing identical labour.

Joint work enabled them to perform such tasks, for example during the hunt, that were beyond the powers of a single individual.

There was no private property. Everything the primitive group owned was common property. Common labour and common property were dictated by the level of development of the productive forces characteristic of the period. As was mentioned earlier, labour did not produce any surplus product, that is, nothing was produced in excess of vital requirements. Exploitation, that is, systematic appropriation of the fruits of other people's labour, was impossible.

**Division of labour.
Emergence of crop and
animal farming**

The development of the instruments of labour wrought a gradual change in the organisation of labour. Rudiments of a natural division of labour, that is, a division of labour according to sex and age, appeared. Women looked after

the children and homes and prepared food. When a group moved from place to place the women carried the few belongings of the entire group leaving the men free to hunt on the way.

The invention of the bow and arrow made hunting more rewarding. At the same time hunting and fishing were becoming more complicated. Women no longer took part in procuring food. The division of labour between the sexes became permanent.

The further improvement in the methods of obtaining means of subsistence was connected with rudimentary crop and animal farming. The observation that grain accidentally dropped takes root and sprouts was probably what led people to take up agriculture. Evidently animal farming emerged also in analogous manner. Primitive man first domesticated the younglings which instinctively followed people carrying away their killed mother.

Tribal system

As time passed the primitive herd evolved into the tribal system.

The tribe was a group of people characterised by common ancestry. At first the group consisted of several dozen kinsmen and anyone outside of it was considered a stranger.

Initially, the dominant role in the tribal system was played by women. The tribe was maternal or matriarchal. At that time the collection of food and hunting were supplemented by rudimentary farming which was carried on predominantly by women who remained at home.

As the productive forces continued to develop matriarchy gave way to patriarchy. The dominating role was assumed by the male. This change was largely due to the rise of nomadic cattle breeding, which, like hunting, became the job of men. They were also taking over agriculture which had reached the stage of crop farming.

Primitive communism

Marx, Engels and Lenin, the great teachers of the working class, called the social system of the primitive era "primitive communism". Turning to historical facts they

disproved the fabrications of bourgeois lackeys who claimed that private property had always existed. History shows that people lived for hundreds of thousands of years without private property. The absence of private property, the domination of common property and collective labour make it possible to regard primitive society as primitive communism.

At the same time these great men spoke about the historical restrictions of primitive communism. Lenin wrote that there had never been a golden age in the remote past of humanity, that primitive man had had to bear the crushing burden of the struggle against nature.

As the productive forces developed, the primitive man slowly freed himself from nature's inhibiting influence. At the same time the relations of production based on the close cohesion of people in a community gradually deteriorated.

Social division of labour, emergence of barter, private property and classes

As we have seen, the initial division of labour was based on the natural distinctions between the sexes and ages of people forming a single community. Later communities and then individual members began to specialise in various spheres of production. This is social division of labour and should not be confused with the natural division of labour.

Tribes living in regions with rich pastures took up animal husbandry giving up crop farming and hunting. The separation of animal husbandry from farming was the first great social division of labour and resulted in the rise of barter.

The second major division of labour, the separation of trades from agriculture, created a broader basis for exchange. The products of craftsmen were all or almost all used for exchange.

In the early stages exchange was effected by the tribal chiefs—elders, patriarchs. But as exchange developed and expanded they came to regard tribal property as their own. Cattle, being the principal object of

barter, was the first to become private property. Inequality in property appeared among members of the community.

With the growth of the productive forces the labour used in stock-breeding or crop farming started bringing richer fruit. There appeared the possibility of obtaining surplus labour and surplus product, that is, an excess of labour and products over and above a workman's subsistence minimum.

Formerly prisoners were either killed or set free, since there was nothing else that could be done with them. Now prisoners were turned into slaves. Slave labour led to greater inequality. Later the rich nobility turned not only prisoners into slaves but did the same to the impoverished members of the community and those who were in debt.

Thus, it was only natural that the rise of private property led to the formation of classes. The primitive system was replaced by class society. Since then the history of mankind became a history of class struggle.

2. The Slave-owning System

Slavery is the earliest and the most glaring form of exploitation. The succeeding two forms of exploiting societies—feudalism, and capitalism—are, to quote Marx, nothing but mitigated forms of slavery.

From patriarchal slavery
to the slave mode of
production

At the outset slavery was of a patriarchal nature. There were few slaves and their owners worked with them. Slave labour was used to satisfy the various wants of a large patriarchal family.

Further development brought about a radical change. The invention of iron smelting revolutionised production. The iron axe and the iron-tipped plough made it possible to cultivate large tracts of land. Small farmers were unable to till so much land, but slave-owners using slave labour could.

Animal husbandry developed along similar lines. Herds owned by rich families grew rapidly and additional hands were needed to tend them. This was also achieved with the help of slave labour.

With the growth of the social division of labour and the development of exchange separate clans and tribes formed unions. Elders and war lords became counts and kings and used their power to defend the interests of the propertied élite, oppress their impoverished kinsmen and suppress the slaves. Armed detachments, courts and punishments served this purpose. Thus arose the state, the ruling class's instrument of violence against the exploited masses.

Exploitation of slaves In the period of the full development of slavery, slave labour formed the basis of social existence. Enterprises using the labour of hundreds and sometimes even thousands of slaves were established. Their exploitation was conducted on a large scale.

Slave labour was undisguised forced labour. Not only the means of production but also the workman were the property of the exploiting class. Slaves were bought and sold like cattle. The master could kill his slave. Everything created by the labour of slaves belonged to their master.

Requirements grew as exchange developed. Intensifying the exploitation of the slaves, the owners appropriated not only the surplus, but also a substantial share of the latter's necessary labour.

Technological stagnation In the slave society production techniques were primitive in the extreme as were the instruments of labour. People and animals were the sole tractive power. The only instruments besides manual tools were mechanical devices—levers, blocks and gears multiplying muscular power.

Inasmuch as a slave was not interested in the results of his labour, slave labour was unproductive. No matter how hard he worked his position remained just as desperate and oppressed. The slave-owners who disposed of an enormous force of free labour were also

not particularly concerned with raising labour productivity. Slave labour was expended in an extremely unproductive fashion. The ruling classes wallowed in luxury, and wastefulness reached unprecedented proportions.

Development of exchange and emergence of money

In the slave society the bulk of the products was made not for exchange but for direct consumption by the slave-owner, his numerous hangers-on and menials. Gradually, however, commodity exchange began to play a greater role.

In political economy the product manufactured not for direct consumption but for exchange, for sale, is called a commodity. Production for exchange, for sale, is called commodity production. An economy which produces not for exchange but for consumption is known as a natural economy. In a natural economy the products of labour are used in the household in which they are produced.

At first exchange was sporadic. Usually one product of labour was exchanged for another. But as time passed exchange widened and became regular. It was then that the need for a special commodity arose, for one that could serve as a medium of exchange. Spontaneously, one commodity out of the mass of commodities was given preference over all others, and was used to assess the value of all other goods. This universal commodity was money. In its turn the appearance of money stimulated the exchange and the development of commodity production.

Trade and usury

The development of handicrafts and the growth of exchange led to the emergence of towns though the first towns were small and differed little from villages. They gradually developed into centres of manufacture and trade and the distinction between them and the countryside increased. That was how the separation of town from countryside took place.

While exchange was weakly developed, the producers, crop farmers, animal breeders and artisans, ex-

changed their goods themselves. But the mass of commodities exchanged steadily increased and so did the territory within which exchange was effected. It was then that merchants appeared. They purchased goods from the producers, brought them to markets, sometimes quite remote from the place of manufacture, and sold them to consumers.

That was how trade capital originated.

The growth of production and exchange considerably increased property inequality. The rich now owned not only large numbers of slaves but also large sums of money. The poor were forced ever more often to approach them for loans. Usury brought great riches to some and bondage and impoverishment to others.

That was how usurious capital arose.

Trade and usurious capital undermined the foundation of the natural economy. The expansion of exchange whetted the appetites of the slave-owners. But in a slave society the direct producer was a thing, and in these conditions trade and usurious capital were unable to master production and convert it to the basis of wage labour.

Growth of contradictions of the slave system Having become predominant, the slave-owning system failed to ensure a substantial development of technology. At the same time it ruthlessly destroyed human labour power, the main productive force of society.

The slave-owning system cultivated a deep contempt for labour among the rich. The slave-owners withdrew to an ever increasing extent from the management of production entrusting these functions to managers and supervisors who for the most part were recruited from among the slaves. Physical labour became the lot of the slaves, an occupation unbecoming free people.

The development of the slave mode of production ruined free small producers. The slave-owning state gave them handouts from the surplus product created by slave labour.

Downfall of the slave-owning system

Compared with the primitive era the slave-owning system was a considerable step forward in human history. Subsequently, however, the system based on slave labour became a brake on the development of the productive forces. Having reached its apex, slavery outlived itself. Commerce declined, the once rich lands lay barren, the population decreased and formerly flourishing trades slumped.

The struggle of the enslaved masses against the oppressors intensified as production waned. Uprisings of slaves intertwined with the struggle of the ruined small farmers against the rich slave-owning élite.

The slaves hated their oppressors but they had no clear objectives and dreamed of restoring the patriarchal system which had become a thing of the past. It was only natural, therefore, that the slave uprisings could not put an end to exploitation.

The slave-owning system was supplanted by the feudal system whose forms of exploitation opened up greater possibilities for the development of the social productive forces.

Slavery under capitalism

Although the slave system as the prevailing social system ceased to exist with the fall of the ancient world slavery as such was not abolished. It reappeared on a large scale at the dawn of capitalism. At the close of the 16th century Negro slaves were brought to America after its conquest. Slave trade flourished in the 17th and 18th centuries. The exploitation of Negro slaves in America became extremely brutal with the expansion of the market for slave labour products, particularly cotton.

The American Civil War of 1861-1865 ended in the defeat of the slave-owning South by the industrially developed North. Juridically, slavery was abolished, but the Negroes remained the most oppressed section of the population.

Though abolished in America, slavery did not disappear from the capitalist world. Survivals of slavery

remained in many colonies and semi-colonies. Only the elimination of colonialism which is currently taking place will completely and for all time efface the disgrace of slavery.

3. The Feudal System

Rise of feudalism

The feudal system arose in Western Europe on the ruins of the Roman slave-owning system, on the one hand, and as a result of the disintegration of the primitive communal system of the people who had overrun Rome, on the other. In fact, it emerged as a result of the interaction of these two processes.

The Roman Empire fell at the close of the 5th century A.D. The tribes that conquered Rome seized a large part of its territory. Initially, the land became common property, but soon tribal chieftains began to appropriate the people's property. Monarchic power emerged.

Large tracts of land passed into the possession of the Church which became an important mainstay of the monarchy. The kings distributed the land among their retinue first for lifelong, and then for hereditary tenure.

Those given land were obliged to render military service to the king. The land, as before, was worked by individual farmers who were dependent on their new masters. The latter imposed manifold duties on the dependent peasants. The plots allotted by the new owners on these conditions were called feuds and their owners feudals. Hence, the name of the system: feudalism.

Level of technology Like the slave-owning economy, the feudal economy was mainly natural. The peasants produced mainly for their own consumption and rarely exchanged commodities. The feudal lord likewise relatively rarely resorted to trade for almost everything he needed was produced by serf labour.

Agricultural methods were primitive, especially at the beginning of the feudal period. In the 9th-10th centuries the long-fallow land system was still predominant: a plot was sown for several years in succession and was then permitted to "rest" for 20-25 years. The three-field system, introduced in the 11th century, dominated agriculture for many centuries. There were only spades, picks, wooden ploughs, sickles and other primitive tools, and because of frequent wars there was a scarcity of livestock and the peasants often had to draw the ploughs themselves.

Yet, under feudalism the productive forces attained a higher level of development as compared with the slave-owning system. Slowly but surely grain-farming, vegetable-growing, wine- and butter-making techniques improved. The methods of smelting and working iron advanced and gradually iron ploughs, harrows, and looms became widespread. Towards the end of the feudal era the development of crafts and the steady improvement of artisan tools created conditions for the emergence of capitalist manufactories.

Feudal exploitation Feudal landownership led to the establishment of direct rule over the people who, in one form or another, were attached to the land.

The land was the principal means of production in those days. And although it was the property of the feudal lord, his power depended not so much on the size of his estate as on the number of people dependent on him.

The feudal system rested on the exploitation of peasants by the landowners with the latter appropriating the surplus product of the peasants' labour. The two main forms of feudal exploitation were *corvée* and rent in money or kind.

Under the *corvée* system the peasant worked part of the week (say, three days) with his own means of production on his plot, and the rest of the week with the same means on his master's field.

Under the rent system the peasant was obliged to hand over regularly to the landowner a specific amount of grain, fowl and other farm products or a fixed sum of money.

Thus, rent was paid either in kind or in money. More often than not, in addition to paying rent, the serfs had to render various *corvée* tasks on the landowner's estate.

The surplus product appropriated by the landowner is known as ground rent, while the surplus product appropriated by the ruling class under feudalism is called feudal ground rent.

In effect the condition of a serf differed little from that of a slave. Still, as distinct from the slave, the serf could spend some of his time on his land so that in some measure he belonged to himself, a factor that opened up ways of development for society inconceivable under the slave system.

Possibilities of economic development in feudal society

The essence of all forms of feudal exploitation was the appropriation of other people's labour, or the product of that labour by the landlords. But different forms of exploitation offered different possibilities for the economic development of society.

Under the *corvée* system the peasant expended his surplus labour on the landowner's field under the supervision of the landowner or his manager. Under the rent system the peasant had to spend his surplus labour working on his own plot. On the face of it, the peasant could dispose of his working time as he wished, though, in effect, he continued to spend a considerable part of that time on the landowner.

Under the *corvée* system the serf was interested in raising labour productivity only during the time he worked on his own plot. Under the rent system he found it advantageous to raise the productivity of his entire labour.

With the transition to money rent the peasant was forced to market the product of his surplus labour to

be able to pay the rent to the landowner in cash. In this way the peasant economy became connected with the market. It began to lose its natural character and turned to an ever increasing degree to commodity production. The development of commodity exchange accelerated the stratification of the peasants. With the transition to production for the market some peasants grew rich, but the bulk became impoverished.

**Mediaeval towns.
The crafts**

In the early stages of feudalism there was but a slight difference between town and country. In the villages the peasants produced the bulk of the artisan articles for themselves and the landowner. In towns the population not only engaged in crafts and trade, but also tilled the land.

At first urban craftsman worked to order using the materials received from feudal lords or peasants, who usually paid him in kind. The instruments of labour were extremely primitive and were the property of the craftsman. His product hardly ever appeared on the market. At that stage the crafts were in stagnation as was small-scale peasant farming.

As time went on, however, the craftsmen were drawn into commodity exchange. Besides working to order, they began to produce for the market. With crafts becoming more and more profitable the townsfolk gave up agriculture. The peasants began to buy manufactured articles from urban craftsmen. Thus evolved the final division between the crafts and agriculture and between town and country.

Unlike the peasant, the craftsman could not exist by consuming the products of his labour. He had to exchange his products for the necessary means of subsistence and for the raw materials without which he could not pursue his trade. Therefore the development of the crafts was closely associated with the growth of trade.

Initially trade was conducted only in products supplied by the artisans and serfs, and also in articles brought from distant countries. But as trade developed

these sources of supply became inadequate and it became necessary to expand production, that is, to shift to large-scale production.

The first large enterprises were established at the close of the 14th century in Italy and in the 16th century in other countries. These were capitalist manufactories. They were owned by capitalists and employed hired labour.

Capitalist relations of production began to appear within the feudal system.

Collapse of feudalism Compared with the slave-owning system, feudalism was a step forward in social development. The social division of labour expanded, commodity exchange grew in scope and production techniques, particularly in urban crafts, slowly improved. The natural economy was undermined by the exchange whose growth simultaneously eroded the foundations of the feudal mode of production. At the same time long wars and devastating epidemics turned flowering regions into deserts and decimated the population.

Feudalism gave rise to forces which subsequently felt cramped within its framework. The feudal system succumbed to the pressure of the bourgeois elements that had come to the fore inside it, and also due to the impact of the class struggle of the oppressed and cruelly exploited masses who had come to realise that their life was no longer possible in the prevailing conditions.

Throughout the period of serfdom the peasants fought a bitter struggle against the feudal lords and their rule. This struggle became particularly acute in the late feudal period, when the exploitation of the serfs was intensified to the extreme.

Peasant wars undermined the feudal system and caused its downfall. The nascent bourgeoisie took advantage of the struggle of the serfs to hasten the collapse of feudalism and replace feudal exploitation by capitalist exploitation. The peasants constituted the bulk of the fighters in bourgeois revolutions which

overthrew the rule of the feudal lords and opened up broad prospects for the development of capitalism.

Survivals of feudalism under capitalism Soon after it had seized power from the feudal lords, the bourgeoisie became aware that its existence was threatened by the rising working class and immediately hurried to enter into agreement with those who just a short while ago were its enemies. In most countries the ruling bourgeoisie left the system of feudal land tenure intact with the result that a handful of landowners remained in possession of huge tracts of land. The exploitation of the peasants by the landowners continued, changing only in form.

The survivals of feudalism were particularly onerous in economically backward countries, where people came under the double burden of capitalist and feudal oppression. In the colonies and semi-colonies the colonialists were backed by the feudal lords and in turn rendered the latter every support.

In tsarist Russia capitalist relations intertwined with numerous survivals of serfdom, the omnipotence of the landowners and presence of a vast number of landless and land-hungry peasants. And it was only the Great October Socialist Revolution that put an end to the bourgeois system, and at the same time swept away all the survivals of the feudal system.

THE CAPITALIST SYSTEM

Chapter III

CAPITALIST COMMODITY PRODUCTION

1. Commodity Production Under the Domination of Private Property

**Conditions for the
emergence of commodity
production**

We have already mentioned that a product manufactured for sale, for exchange, is called a commodity; an economy manufacturing products for exchange is called a commodity economy. An economy in which products are made for direct consumption and not for sale is called a natural economy.

Capitalist enterprises produce their entire output for sale. As capitalism develops small producers market an ever increasing portion of their output.

Commodity production is based on the social division of labour, which consists in that individual members of society produce different products. But for natural economy to turn into commodity production there must be in addition to the social division of labour also private ownership of the means of production.

**Simple and capitalist
commodity production**

When there were no large capitalist enterprises, production was conducted by small commodity producers—peasants and handicraftsmen. They worked themselves, did not hire workers and owned simple and inexpensive instruments of labour. Known as simple commodity production this sort of economy

has an important feature in common with capitalist commodity production—both are based on the private ownership of the means of production. At the same time, however, simple commodity production differs substantially from capitalist production: it is based on the personal labour of small commodity producers, while capitalism is based on the labour of wage workers.

Dual nature of the commodity

To be a commodity the product of labour must satisfy one or another human requirement; therein lies its utility. This property of the product of labour is called its use-value. The use-value of meat and milk consists in that these products go to satisfy people's requirement for food. The water of a spring, wild-growing fruit and many other things that are not products of human labour also have a use-value.

Products of labour both in natural and in commodity economy satisfy definite human requirements. The bread which a peasant produces for his own consumption satisfies his requirement for food and, hence, is a use-value. But having become a commodity bread also acquires another very important property: it can be exchanged for any other commodity.

A commodity can be exchanged in a definite quantitative proportion to another commodity, that is, it constitutes what is called an exchange value (or simply a value). This new property is acquired by a product of labour when it becomes a commodity. Hence a commodity has two properties: use-value and value.

Labour as the basis of value

When exchanged, articles of different use-value are equated to each other. In fact, articles are exchanged because they have different use-values. Only those articles that satisfy different human requirements, are exchanged.

The quantitative proportions in which commodities are exchanged fluctuate frequently. Yet, no matter how great these fluctuations, a ton of copper, for example, is always more expensive than a ton of cast iron and always cheaper than a ton of silver, or es-

pecially, a ton of gold. Hence, there is a more or less firm basis for the quantitative proportions in which commodities are exchanged.

Any quantitative comparison presupposes the presence of a common property in the articles being compared. Often entirely different things are compared, but this can be done only if they have something in common. It is also necessary that this common property could be measured.

What is this common property?

Commodities having absolutely different use-values have only one property in common: they are all the products of human labour. This property can be measured: labour is measured by the amount of time it takes to produce a given commodity. It is the amount of labour spent on the production of commodities that determines the proportions in which one commodity may be exchanged for another.

**Socially necessary
labour time**

Producers expend different amounts of labour on the production of an identical commod-

ity. But the consumer does not care how much labour has been expended by the individual producer on the commodity.

The value of the commodity does not depend on the amount of labour spent on its production in each given case. It is determined by the amount of labour time required to produce a given commodity in conditions normal for the technological level of production in a given society and with the average level of skill and intensity of labour.

The average labour time required to produce a commodity is called socially necessary labour time and it is the latter that determines the value of the commodity.

**Dual nature of
the labour embodied
in a commodity**

We already know that commodity is both a use-value and a value. The nature of the labour

embodied in the commodity is also dual.

Labour is just as diversified as the use-values it produces. Various kinds of labour differ from each other

as regards their purpose, instruments, methods, objects and results. Every use-value embodies a specific kind of labour: coal embodies the labour of a miner, garments the labour of a tailor, steel the labour of a steel smelter.

But when exchanged these different commodities are compared and equated. In equating the commodities their use-values are disregarded since they are incomparable. But disregarding the use-value of commodities the producers also disregard the differences between the concrete types of labour embodied in their production. Commodities are considered products of human labour in general. Therefore, the labour embodied in the commodity is considered homogeneous, an expenditure of human labour power in general, that is, abstract labour. As such, the expenditure of labour power of different producers does not differ qualitatively but quantitatively.

It follows, therefore, that the labour of the commodity producer is, on the one hand, concrete labour creating use-values as such, and, on the other hand, the expenditure of labour in general, abstract labour, a share of the social labour, creating the value of the commodity as such.

Thus, the dual nature of the commodity is the inevitable consequence of the dual nature of the labour embodied in it.

Simple and
complex labour

The value of the commodity is the expenditure of human labour in general. But the labour which creates use-values may differ in skill.

An unskilled worker has no preliminary training. But a steel founder, a turner and a weaver, for example, must receive the necessary training. In the first case, we have simple labour, in the second, complex labour.

A commodity may be the product of the most complex labour, but its value equates it with the product of simple labour. Complex labour is multiplied simple labour; in one hour complex labour

creates a value that simple labour would require several hours to produce.

Contradiction of simple commodity production In a society based on private property every producer—the small handicraftsman or the big capitalist—acts at his own risk. Every commodity producer is independent, production is his private business and his labour is private labour.

At the same time every commodity producer depends on other commodity producers. In order to have the means of subsistence and do business he must exchange the commodities he produces, sell them in order to purchase raw materials and instruments, and consumer goods for himself and his family. The labour of an individual producer must comprise a specific share of the total labour expended by society for the satisfaction of its requirements. It is the social labour embodied in the commodity that forms its value. The contradiction of simple commodity production lies in the contradiction between private and social labour and develops further under capitalism.

2. Money Under Capitalism

Essence of money The value of a commodity can be expressed only by equating it to another commodity, by exchanging it for another commodity. Under developed commodity production goods are not exchanged directly as a rule. All commodities are equated to a definite sum of money. Developed commodity production is inconceivable without money, for it is money that makes possible the all-round social links existing between isolated individual producers under commodity production.

Every commodity must be exchanged for money, in other words, it must be sold. If it cannot be sold its producer has wasted his labour. That means he has wasted his labour and the means of production to produce a commodity for which there is no social demand.

If the commodity has to be sold at a lower price, that means that part of the producer's labour has not been recognised by society. Thus, the emergence of money promotes the growth and development of the contradictions inherent in the commodity.

Exchange involving money presupposes an all-round connection of the commodity producers and a constant intertwining of their transactions. At the same time such exchange makes it possible to separate sales from purchases. The producer can sell his commodity and keep the proceeds for a certain period of time.

But owing to the all-round economic links that exist between producers and the latter's dependence on each other, the sale of some commodities without the buying of others in exchange will cause a delay in the sales of some commodities and create a situation fraught with crises. The further development of commodity production and its transformation into capitalist production makes crises not only possible but inevitable.

The exchange of commodities reflects the relations between the people producing commodities. Hence, value expresses the social relation of production, the relation between commodity producers.

This relation between people is manifested as a relation between things *qua* commodities, and the value of a commodity seems as much its natural property as, for example, its colour or weight. One says, for instance, that a loaf of bread weighs so many grammes and costs so much. The properties which commodities possess solely by virtue of a definite system of social relations are regarded as their natural property. This is the fetishism of commodities typical of capitalist production. Fetishism conceals the essence of capitalist relations, their true nature, and lends them a deceptive appearance.

Functions of money In capitalist society money fulfils the following functions: it is 1) the measure of value, 2) a circulation medium, 3) a means of accumulation, 4) a means of payment and 5) universal money.

Every commodity is sold for a definite sum of money. This sum expresses the value of a commodity and the price of a commodity is the monetary expression of its value.

Before a commodity is bought or sold it is necessary to measure its value in money, that is, to determine its price. The measurement of the commodity's value in terms of money is a precondition for any exchange of the commodity, for its purchase or sale. In these transactions money serves as the measure of value.

Once a commodity has been valued in terms of money the decisive moment sets in: it must be sold, or, in other words, exchanged for money. Exchange of commodities accomplished with the aid of money is called commodity circulation.

Here money serves as the circulation medium. The circulation of commodities is directly connected with the circulation of money; when a commodity passes from the seller to the buyer, money passes from the buyer to the seller.

To fulfil its function as a measure of value money should not necessarily be available in cash. It is possible to evaluate all the wealth of a country without having a single coin or banknote. When we say, for example, that so many thousand millions worth of commodities have been produced, we only imagine a definite sum of money.

It is an entirely different thing, however, when we have to do with money as a circulation medium. To fulfil this function money has to be available in cash.

For money to be a measure of value it must have a value itself. Conversely, to fulfil its function as the circulation medium, money does not necessarily have to possess value.

The seller accepts money in return for his commodity to be able to exchange it for another commodity, that is, to buy another commodity. Therefore full-value money—gold—can be replaced in its function as the circulation medium by its substitutes and

representatives which are notes (banknotes, paper money), and silver and copper coins.

For the function of measure of value the amount of money is immaterial. But there must be a definite amount of money when the latter fulfils the function of circulating medium.

Since commodities are bought and sold in many places simultaneously, the amount of money which has to be on hand at every given moment depends on the aggregate of the prices of the circulating commodities. In its turn the aggregate of the prices depends on the amount of available commodities and the price of each commodity. The money supply required, for example, within a year depends not only on these two factors but also on the rate at which money circulates. The faster the circulation of money, the smaller the amount of money required, and vice versa.

Money is the representative of universal wealth. At any time it can be transformed into any commodity. Therefore money is used as a means of accumulation or as a means of amassing treasure.

In order to play the role of a means of accumulation money must have a value of its own, as in the case of its function as a measure of value. At the same time it must be available in cash, that is, possess the property characteristic of a circulation medium.

Commodities are often bought and sold on credit. The buyer receives the commodity but pays the seller at the expiration of a specified period. Here money plays the role of a means of payment. This function of money reflects the expansion of exchange. The links between individual commodity producers become still closer and their interdependence grows. The buyer becomes a debtor and the seller a creditor.

Finally, money plays the role of universal money. In the turnover between countries gold is essentially a commodity, as any other. The characteristic difference, however, is that this commodity is accepted by all and refused by none. Therefore gold serves as money in trade between countries.

Gold and paper money. Inflation

In capitalist society the amount of money needed for circulation cannot be fixed in a balanced way. It depends on spontaneous market fluctuations.

In the capitalist countries notes are used instead of gold coins to make purchases and payments. Paper money may depreciate. This happens when it is issued in excessive quantities or when commodity circulation declines. The depreciation of money owing to excessive issue is called inflation.

The exploiting classes and the bourgeois governments defending their interests often willingly resort to inflation to lower living standards and intensify the exploitation of the working people.

3. The Law of Value in Capitalist Production

How the law of value operates

We have already seen that the value of a commodity is determined by the amount of socially necessary labour expended on its production. This does not mean, however, that every commodity is actually exchanged in full conformity with its value. The value of a commodity is expressed in its price, that is, in a definite sum of money. But commodity prices fluctuate constantly depending on market conditions and the changing relation between supply and demand.

Anarchy of production prevails in a society of individual commodity producers all of whom work blindly, at random, without a plan. So long as their commodity meets a ready sale, they strive to produce as much of it as possible. But when a producer's commodity no longer finds a market or can be sold only at low, unprofitable prices, he is compelled to curtail production or stop it altogether and to take up the manufacture of some other commodity.

Constant fluctuations of prices around value are the sole mode in which the law of value can operate in

capitalist economy. It is among innumerable fluctuations that we have the distribution of labour among the various branches of production, a factor essential for the existence of any society.

As a result of the universal spread of commodity production under capitalism, production is no longer in the hands of small commodity producers but in those of the capitalists. Their enterprises employ hundreds and thousands of workers who produce huge quantities of the most diverse commodities which are frequently sold in the remotest parts of the world. In these conditions the anarchy of production manifests itself to the full. It is part and parcel of capitalism and makes itself felt with a particularly destructive force during crises.

The law of value and the emergence and development of capitalism

The fact that the value of a commodity is determined by the socially necessary labour time has important consequences for commodity producers. The producer who expends more labour on the production of the commodity than is required by average social conditions receives for his commodity a sum of money embodying only a part of the time he has spent. Conversely, he who produces the commodity at a lower expenditure of labour than the socially necessary time has an advantage over the former.

In the competitive struggle for more advantageous production conditions and a more profitable exchange of commodities which invariably breaks out between individual producers some are ruined while others grow rich. The latter expand production, hire workers, buy new machinery and become capitalists. The mass of small producers run into debt, fall into dependence on the rich, are brought to ruin and pushed into the ranks of the proletariat.

Under private ownership of the means of production the law of value unavoidably leads to the emergence and development of capitalist relations.

Chapter IV

THE ESSENCE OF CAPITALIST EXPLOITATION

1. Capital and Wage Labour

Conditions for the
emergence
of capitalism

Capitalism developed on the basis of small commodity production with its competition which

ruins some and enriches others.

Two main conditions are essential for the rise of capitalism: first, the accumulation of wealth in the hands of a few and, second, the emergence of a mass of destitute people who, though personally free, have neither the means of production nor the means of subsistence and are compelled to go into capitalist bondage.

Once capitalism has arisen, the division of society into opposing classes is ensured by the economic laws of that system: the capitalists multiply their wealth, while the working class, as hitherto, is deprived of everything. The existence of capitalist owners and propertyless proletarians is the *sine qua non* of capitalist production. The creation of historical preconditions for the emergence of capitalism is a process called primitive accumulation of capital because it precedes capitalist accumulation.

Primitive accumulation
of capital

The entire process of primitive accumulation of capital rested on the deprivation of the direct producers of the means of production—the expropriation of land from the peasants. The liberation of peasants

from feudal dependence, which took place in the period of the disintegration of feudalism, was accompanied by another no less important "liberation", the "liberation" of peasants from the land which they tilled. "Surplus" hands left the villages to form the army of wage workers becoming available to capital.

But this alone could not give rise to capitalist production: vast wealth had to be concentrated in the hands of a small number of people, a process which received great impetus in the era of great geographical discoveries (15th-16th centuries). The discovery of America was followed by an influx of people in search of easy gain to that continent. European states sent expeditions which destroyed and looted flourishing countries.

The plunder of rich overseas countries was one of the most prolific sources of primitive accumulation of capital in Europe, above all in Britain. In all countries the authorities encouraged the concentration of vast wealth in the hands of a handful of people.

Under capitalism the bulk of the means of production are the private property of a small group of capitalists and landowners. The vast majority of the population—the working people—have no means of production of their own and are compelled to go into bondage to those who own factories, mines and land.

What is capital? A bourgeois economist answered this question as follows: "In the first stone which the savage flings at the wild animal he pursues, in the first stick that he seizes to strike down the fruit which hangs beyond his reach, we see the appropriation of one article for the purpose of aiding in the acquisition of another, and thus discover the origin of capital."

This definition of capital is very convenient for the bourgeoisie, since its purpose is to make people believe that capital has always existed and will always exist. But it is false from beginning to end. The stone and the stick are instruments of labour and not the means

of exploitation of man by man. Under simple commodity production the owner of commodities sells his goods in order to purchase others. The purpose of this exchange is to satisfy the requirements of commodity owners.

The capitalist pursues a totally different aim in investing his money. Owning a definite amount of money, he strives to increase that amount, that is, to make a profit. The amount of money he invests grows in the process of capitalist production.

Capital is not an object but a definite social relation between the class owning the means of production and the class deprived of them and, therefore, compelled to submit to exploitation. Things—buildings, machinery, raw materials, finished articles—are not capital in themselves. But they become means of exploitation, that is capital, under definite social relations, namely, when two opposing classes emerge in society—the class of private owners of the means of production and the class of propertyless workers, the proletarians. These social relations are not everlasting. On the contrary, emerging as they do at a definite stage of social development they are abolished at another, later stage of development.

The Great October Socialist Revolution in Russia and then the triumph of socialist revolutions in a number of other countries have proved in practice that the means of production cease to be means of exploitation when the bourgeoisie is deprived of power and private ownership of the means of production is abolished.

Labour power as a commodity In a society where private capitalist property prevails the only thing owned by the bulk of the people is their labour power, in other words, their ability to work. Man owns this ability under any social system. But it is only under capitalism that labour power becomes a commodity, that is, an object of purchase and sale. Capitalism is commodity production at the highest stage of its development when labour power, too, is a commodity.

After the abolition of capitalism labour power ceases to be a commodity. In socialist society the means of production are socialist property. The working people here do not sell their labour power, but apply it at enterprises which are public property.

Specific features of
the commodity
labour power

A worker at a capitalist enterprise does not sell his labour power forever, but for a definite period—a day, a week, a month, in return for daily, weekly and monthly wages.

As any commodity, labour power has a definite value. We have already learned that the value of a commodity depends on the amount of socially necessary labour required for its production. The value of the commodity labour power is, therefore, equal to the value of the commodities required by the worker to maintain his life and to regenerate his ability to work. In other words, the value of labour power is the value of the essential means of subsistence of its owner.

Capital needs a constant influx of labour power. For this reason the worker must have the opportunity to support not only himself but also his family. And since capital needs both unskilled and skilled workers to operate sophisticated machinery, the value of labour power includes certain expenses on training the growing generation of workers.

That is how things stand with the value of labour power as a commodity. But once it is a commodity, labour power also has a use-value. What makes labour power a use-value to the capitalist who buys it? It is a use-value because he makes the worker work, and because the worker's labour creates a value which is greater than that of the commodity labour power. This feature of the commodity labour power is the key to an understanding of the mechanism of capitalist exploitation.

2. Production of Surplus Value

The worker's surplus labour—the source of the capitalist's wealth

Taking up business the capitalist buys or builds factory premises and buys machinery, machine tools, raw and other materials, fuel and other essential means of production. But all these things remain dead and unproductive until live human labour is applied to them.

The capitalist hires workers who set the machines in operation and turn the raw materials into finished goods, commodities. Then he sells these commodities and buys raw and other materials, pays the workers, etc., with the proceeds.

What is the value of the manufactured commodity?

First and foremost this value includes the value of the commodities consumed in its production: raw materials have been processed, fuel has been burnt and machinery depreciated. Let us assume that the value of these commodities is 200,000 working hours or \$400,000 in terms of money.

Furthermore, the value of the manufactured commodity includes the new value created by the labour of the workers at the given factory. Let us assume that 200 persons worked 100 days at the factory for eight hours a day. In that period they created a new value amounting to 160,000 working hours or \$320,000 in terms of money.

Hence, the full value of the manufactured commodity amounts to 360,000 working hours or \$720,000 in terms of money.

Now let us see how much the commodity had cost the capitalist. He paid \$400,000, that is, a sum corresponding to 200,000 working hours, for the machines and materials needed for production. In addition to these 200,000 working hours the value of the new commodity includes 160,000 working hours spent by hired workers at the capitalist's factory. The workers' labour created a new value equal to \$320,000.

Did the capitalist pay the workers an amount equal

to this value? The answer to this question discloses the secret of capitalist exploitation. The value produced by the worker's labour and the value of his labour power are two different magnitudes. The former is much bigger than that of the latter. The difference between them is an essential condition for the exploitation of labour by capital, for the difference between the value of the labour power and the value of the articles produced by the labour of a worker is wholly appropriated by the capitalist.

The capitalist pays the workers only for the value of their labour power. Let us assume that the means of subsistence which the worker needs to satisfy his essential wants cost \$8 a day. In that case the owner pays 200 workers the sum of \$160,000 for 100 days work.

For the commodity produced at his factory in that period the capitalist receives \$720,000. His expenditure on the production of the commodity comprises \$400,000 plus \$160,000, that is, \$560,000. The difference of \$160,000 is the increment to his capital.

In our example a worker worked daily for eight hours and created \$16 worth of new value. The capitalist paid the worker \$8 for his eight-hour working day, that is, he paid him only for the value of the labour power, or, in other words, for the value created during 4 hours of work. So, the worker worked 4 hours to compensate for the value of his labour power, and another 4 hours, free of charge, for the capitalist's benefit.

It follows, that the labour the worker spends at a capitalist factory can be divided into two parts. During one part of the working day he produces the value equal to the value of his labour power. This is necessary labour. During the other part he produces the value that is appropriated by the capitalist without compensation to the worker. This is surplus labour.

The surplus labour of the worker is the source of the profits of industrialists and merchants, the dividends of shareholders, the interest of usurers and bankers, the ground rent of landowners, and all other unearned incomes in bourgeois society.

Surplus value

The value created by the surplus labour of the worker is surplus value.

Surplus value is created by the unpaid labour of workers. The production of surplus value and its appropriation by the capitalists is the motive force of the capitalist mode of production.

Surplus labour existed even before the emergence of capitalism. All exploitation of man by man is, in effect, the appropriation by the exploiting class of the surplus labour of the exploited class. But under slavery and serfdom when natural economy was predominant, the appropriation of surplus labour was limited. The slave-owner or the feudal lord squeezed from their slaves or serfs as much labour as they needed to satisfy their wants and whims.

The capitalist, on the other hand, transforms the product of the workers' surplus labour into cash. This money can again be used as additional capital to produce more surplus value.

This being the case, the greed for surplus labour under capitalism knows no limits. The capitalists use all and every means to intensify the exploitation of their wage slaves. Capital, as Marx said, exhibits a truly wolfish greed for surplus labour.

Constant and variable capital

Various components of capital play different roles in the production of surplus value. The

capitalist transforms part of his capital into means of production: factory buildings, machinery and plant, raw materials and fuel. The value of all these items spent on the production of the commodity is included in the value of the finished product without any change in its magnitude. Since the magnitude of the value of this part of the capital does not change it is called constant capital. Constant capital is designated by the letter *c*.

The capitalist spends the other part of his capital to hire workers, that is, to purchase labour power. By their labour the workers create a new value, which as we have already shown, exceeds the value of the labour

power. It follows, therefore, that the magnitude of the value of the part of the capital spent on hiring workers changes (grows) in the process of capitalist production. Consequently, the part of the capital spent on buying labour is called variable capital and is denoted by the letter v .

Rate of exploitation How intense is capitalist exploitation? An idea of this can be gained from the proportion in which the working day is divided into surplus and necessary labour. The rate of exploitation of labour by capital increases when surplus labour time grows, while the necessary labour time diminishes.

The surplus (unpaid) labour is embodied in the surplus value, while necessary (paid) labour corresponds to the variable capital. The ratio of the surplus value to variable capital is called the rate of surplus value and is an indicator of the rate of exploitation of the worker by the capitalist.

In our example the rate of surplus value is:

160,000 dollars' worth of surplus value

160,000 dollars' worth of variable capital

i.e., 100%.

Surplus value is denoted by the letter m . Hence the rate of surplus value is $\frac{m}{v}$.

The rate of surplus value grows as capitalism develops. In the capitalist countries today it is 200 or 300 per cent and sometimes even higher.

Capitalist utilisation of machinery and the working class

In search for profits the capitalists have remoulded the entire system of social production. Instead of the former small-scale production based on manual labour, they have created large-scale industry based on machine production.

Capitalist machine industry first emerged and developed in Britain. Within a short space of time (the last third of the 18th century and the early 19th century) a great many machines appeared in Britain. The industrial revolution radically changed the country's appear-

ance. From an agrarian country she turned into an industrial power. Soon large-scale industries emerged in other countries.

Do the capitalists always strive to install new machinery in their factories? No, far from always. A machine is profitable to the capitalist only if its operation costs are less than the wages of workers which it replaces. That means that the lower the wages the less interested are the capitalists in introducing machinery, and vice versa.

At the early stage of capitalist development the workers bitterly opposed the introduction of machinery. But when the workers turn from scattered spontaneous protests to a conscious struggle for their vital interests, they become fully aware that their enemy is not the machinery in itself but the capitalist system under which it is used.

The machine lightens labour. Under capitalism, however, it increases the intensity of labour to the utmost.

While being a faithful helper to man in his struggle to master the forces of nature, the machine in capitalist society is a terrible weapon of the exploiters in their struggle against the exploited. With the help of machinery the capitalists worsen the conditions of labour and try to break the workers' resistance against increasing exploitation.

By raising labour productivity the machine multiplies social wealth. At the same time in capitalist society all the fruits yielded by growing labour productivity are reaped by the capitalists.

Consequently, the utilisation of machinery under capitalism contains deep contradictions which cannot be resolved so long as the capitalist system exists.

Wages under capitalism conceal exploitation As we have shown above, the labour of the wage worker at the capitalist enterprise consists of two parts: paid and unpaid labour. But when the capitalist pays the worker his wages, the latter does not see that his wages compensate only part of his labour while the other part is appropriated free of charge by the cap-

italist. The payment of wages is effected in such a way as to create the impression that the worker is paid for his entire labour.

There are two ways of calculating wages: either in accordance with the length of the working time: hours or weeks (time-wages); or in accordance with the quantity of products manufactured (piece-wages). In both cases the impression is created that the worker sells his labour and not his labour power, that he is paid for the whole of the labour he expends.

The fact that wages conceal the exploitation of the worker by the capitalist and create the impression that the worker has been fully paid for his entire labour plays an important role in the life of capitalist society. This false impression persists in the minds of workers until they manage to cast off the ideological influence of the bourgeoisie.

Wage slavery In capitalist society wage labour is essentially wage slavery. A Roman slave was fettered by chains, while a wage labourer, to use Marx's expression, is tied by invisible threads to his owner. The inexorable laws of the capitalist mode of production chain the worker securely to the chariot of the capital.

The champions of the capitalist system strive to impress upon the working people that under capitalism they will be able to do away with exploitation. They portray capitalism as a social system which offers "equal opportunities" to all people. All this is completely false.

In reality capitalism exposes the bulk of the population, the working people, to exploitation by an insignificant minority. An insecure life, an uncertain future and worsening living conditions, such is the lot of millions of working people in capitalist society.

The mechanics of capitalist society is such that the workers constantly remain propertyless proletarians whose only choice is to sell their labour power.

Formally, according to the laws of bourgeois countries, workers are "free". The worker can quit a given

enterprise only to enter the employ of another capitalist. Thus, under capitalism "freedom" is the complete and unrestricted freedom for the capitalist to exploit workers and the "freedom" for workers to sell themselves into bondage to capitalists.

Equally untrue is all the talk about "equality" under capitalism. Bourgeois revolutions proclaimed the equality of all citizens before the law. However, it is easy to see that there is no, nor can there be, genuine equality of people so long as there is exploitation.

Basic contradiction of capitalism There is a contradiction between private and social labour, even under simple commodity production. Under capitalism, this contradiction turns into a contradiction between the social nature of production and the private capitalist form of appropriation of the fruits of production.

With the development of modern industry, production becomes increasingly socialised. Hundreds and thousands of people are employed at every enterprise. There are close links between individual enterprises. Hence, hundreds of thousands and millions of people are directly connected with each other in the production process. But instead of being placed at the disposal of all society the product of this social production is appropriated by a handful of private owners.

Capital organises the labour of hundreds and thousands of workers at each enterprise separately, but social production as a whole is dominated by anarchy of production. Thus, the basic contradiction of capitalism finds expression in the anarchy of production, in effective demand lagging behind expanding production and in the class struggle between the working class and the capitalists.

Significance of the theory of surplus value Under capitalism exploitation is camouflaged. It was Marxist political economy that revealed the essence of exploitation of labour by capital. The secret of capitalist exploitation is disclosed in the theory of surplus value evolved by Marx.

The theory of surplus value teaches the working class and all working people in the capitalist countries to discern the genuine causes of their privations and sufferings. It shows that the oppression of the working classes, of all working people, is not due to accidental causes or the arbitrary rule of individual capitalists, but springs from the very essence of capitalist production relations.

The theory of surplus value reveals the essence of capitalist exploitation. Lenin called the theory of surplus value the cornerstone of Marx's economic theory. It lays bare the roots of class contradictions and class struggle in capitalist society.

3. Development of Capitalism and the Position of the Working Masses

Accumulation of capital

Capital has an insatiable greed for profit. No matter how rich a capitalist, no matter how large

his profits, he always wants to be richer still. If the capitalist does not want to go under in the merciless struggle of all against all, he has to add a large share of his profits to his capital, to invest it in production.

The addition of a part of the surplus value to the capital is called the accumulation of capital. By annually accumulating part of the surplus value, the capitalist becomes the owner of a steadily growing capital.

Capital also grows in another way. Large-scale production is more profitable than small-scale production. In the course of the competitive struggle the large capitalist swallows up his small and weaker rivals. This struggle, which brings victory to some and ruin to others, results in the growth of capital, the merger of several capitals into one. In view of the advantages of large-scale production capitalists often pool several smaller capitals into a single large capital.

As a result, huge sums of capital become the property of a very small number of tycoons. This handful of

millionaires and multi-millionaires owns huge fortunes and decides the fates of tens and hundreds of thousands of people.

Relative and absolute deterioration in the position of the working class

By installing new equipment each capitalist strives to raise the profitability of his enterprise. Technological innovations lower the value of the worker's means of

subsistence: less labour is needed for their production than before. That means that the worker requires less working hours to compensate the value of his labour. Consequently, the accumulation of capital goes hand in hand with the steady rise in the rate of the exploitation of workers by capitalists.

The growing rate of exploitation of labour by capital means that the working class is receiving an ever smaller share of the wealth it produces.

The total sum of values produced over a definite period, say, a year, is called the national income of a given country. In capitalist countries the share of the working class in the national income is steadily decreasing. At the same time the share in the national income appropriated by the bourgeoisie and its hangers-on grows all the time.

Therein lies the relative deterioration in the position of the working class. It is called relative because there is a change in the ratio between the incomes of the working people and those of the non-working classes, the ratio between the living standard of the working class and that of the bourgeoisie. While the working class is fettered by an extremely low standard of life, there is no limit to the wanton waste of the bourgeoisie.

Since capitalism is responsible not only for the relative but at times also for the absolute deterioration in the position of the working class, it directly worsens the latter's living and working conditions.

In the face of these facts the champions of capitalism occasionally concede a relative worsening in the position of the working class, but they furiously deny that there is an absolute deterioration. Do not, they

ask, the workers of the latter half of the 20th century enjoy many benefits which were inconceivable a century or half a century ago? This is usually followed by references to bicycles, motorcycles, cars, radios and TV sets, washing machines, refrigerators and other comparatively recently invented durable goods.

Their intention is to confuse the question of the position of the working class under capitalism. Yet, it is clear to any rational person that people's requirements are not immutable.

Technological progress, the development of the productive forces and the growth of social wealth give rise to ever new requirements on the part of all members of society, including, of course, the working masses.

The requirements of the working class grow with the progress of historical development. In capitalist conditions, however, it is becoming increasingly difficult for the working class to satisfy its normal requirements.

Capitalists strive to lower wages to the minimum. It is commonly known that commodity prices fluctuate, now rising above, now falling below their value. But as distinct from the prices of other commodities, wages, that is, the price of labour power, tend to fall below their value.

The capitalists have devised numerous methods of picking the worker's pocket, of reducing his real earnings, thus forcing him to economise on food, clothing and housing.

In the capitalist countries the workers suffer most from the rising cost of living. The sum of money the worker gets from selling his labour power—the nominal wage—is one thing; the amount and the quality of foodstuffs, clothing, household goods, etc., the worker can buy for the money he earns is quite another thing. It is the amount of the means of subsistence the worker is able to buy for his money that determines his real wages. As the cost of living rises, as taxes grow, real wages drop and the position of the working class deteriorates. High rents and all sorts of deductions from

their wages decrease the real incomes of the working people. Labour is becoming arduous and industrial injuries ever more frequent. Only by putting up a bitter struggle is the working class able to counteract the capitalist's intention to reduce their living standard to an absolute minimum.

In capitalist countries there are many categories of low-paid workers and even branches of production in which wages are low. This applies above all to agriculture and also to some industries, the textile industry, for example. Women as a rule draw lower wages than men. In some cases the wages of women are only half of those paid to men.

The struggle of the working class in advanced capitalist countries for its vital interests has not been in vain. The successes in the building of a new life in the Soviet Union and other socialist countries over the past several decades have inspired workers in capitalist countries to stiffen their struggle against the exploiters, with the result that the bourgeoisie is forced to make concessions time and again.

Nevertheless, whatever concessions the working class has wrested from the bourgeoisie, the essence of the capitalist system has not changed. This system is based on the exploitation of labour by capital. The gulf between labour and capital has not disappeared but, on the contrary, has widened enormously. The development of capitalism leads to the enrichment of small groups of the bourgeoisie, while the bulk of the population is proletarianised. In other words it is transformed into destitute people who live by selling their labour power.

Unemployment—
the scourge
of the proletariat

Expanding production, the capitalists install machinery requiring a smaller amount of live labour. This changes the ratio between the two parts of capital—constant and variable capital. Constant capital grows much faster than variable capital. The workers replaced by machinery are ousted from production.

Thus, the course of capitalist production ensures the capitalist with a constant reserve of working hands. But that is not all. Capitalism also has other inexhaustible sources of augmenting the army of the unemployed. There is a steady influx of free working hands from the countryside where masses of peasants become ruined. Furthermore, a multitude of artisans, small tradesmen, and owners of small workshops who become bankrupt are pushed into the ranks of the unemployed.

Capitalism cannot exist without an army of unemployed which supplies the capitalist with working hands whenever market conditions warrant an expansion of production. Bourgeois politicians frankly admit that unemployment is essential to the capitalist system. Capitalist bosses and their yesmen say that millions of unemployed are essential for a "healthy economic organism". They laud unemployment because it is a powerful weapon against the working class. Always and everywhere the capitalist uses unemployment to exert pressure on the employed workers, worsen their living and working conditions and thus increase his profits.

Unemployment is a scourge of the working class. The inevitability of unemployment under capitalism brings insecurity, constant uncertainty about the future to all wage workers, even to those who have jobs. All this is not a result of accidental causes but is entirely due to the economic laws of the capitalist mode of production.

The universal law of capitalist accumulation As a result of a searching historical investigation and theoretical analysis of capitalism, Marx arrived at the conclusion that the greater the social wealth under capitalism, the larger the army of the unemployed condemned to poverty and hunger. The accumulation of wealth at one pole of society is at the same time accumulation of misery, insecurity and arduous toil at the opposite pole, that is, in the class that produces all the wealth of society.

Such is the law of capitalist accumulation discovered by Marx. As other economic laws of capitalism, in its

operation it is subject to the influence of numerous factors, primarily the class struggle of the proletariat.

Aggravation of
class contradictions

As capitalism develops society becomes more and more sharply divided into two antagonistic

camp, into two opposing classes: the proletariat and the bourgeoisie. All wealth and power are concentrated in the hands of the bourgeoisie: it owns nearly all the means of production and therefore appropriates the product of social labour. The bourgeoisie holds power but it cannot exist without the working class. The capitalist cannot thrive if there are no workers at his factories. Producing incalculable wealth for the capitalists, the working class at the same time remains a deprived and oppressed class.

The bourgeoisie and the proletariat are the two principal classes in capitalist society. But in all capitalist countries there are also other classes and intermediate strata. The peasantry constitutes a particularly large part of the population in the majority of capitalist countries. The development of capitalism, however, inevitably leads to the impoverishment and ruin of the greater part of the rural workers exploited by the capitalists, landowners and rich peasants.

The spread of large-scale production intensifies class contradictions in town and country. The intermediate stratum is eroded and there is increasing stratification of the petty bourgeoisie with the result that a few people become capitalists while many thousands are pushed into the ranks of the working class. As capitalism develops an increasing section of the population becomes wage workers or proletarians. In 1969 wage and salaried workers made up 79.5 per cent of the gainfully employed population of all capitalist countries; in the United States they constituted 91.6 per cent, in Britain 93.5 per cent, in the FRG 82.6 per cent, in France 76.8 per cent and in Italy 67.5 per cent. Estimated figures for Canada, Switzerland, the Netherlands, Australia and New Zealand were 80 per cent and over. Bracketing industrial and office workers into a single category,

the official statistics of these countries also include into this group a certain number of people in effect belonging to higher categories of salaried workers. But this number is insignificant compared with the bulk of the proletariat.

The capitalist system has created a large-scale industry with up-to-date equipment, means of transport and communication and has opened up vast mineral wealth. In the course of the past 150-200 years man has greatly increased his power over nature. This headway in mastering the forces of nature has been paid for by the blood and sweat of many generations of working people and was accompanied by the intensification of exploitation of man by man.

To keep the people in subjection the bourgeoisie created a giant apparatus of violence and deceit. Whatever its form, the bourgeois state is an instrument of capitalist domination over labour and enforces its rule with the help of the police, gendarmery, troops, courts and prisons.

The economic and political struggle of the proletariat

At first capitalist entrepreneurs had to do with a disunited mass of workers. If a worker protested against deteriorating working conditions, the capitalist easily found someone to replace him. With time, however, workers could not but come to realise that they had a community of interests and began uniting into trade unions. The capitalists no longer faced individual proletarians but an organisation of proletarians. In their turn the capitalists formed their own alliances. They bribe the most complaisant trade union leaders and hire strike-breakers.

In advanced capitalist countries the working class is increasing resistance to the attempts to lower its living standard. In the course of long years of struggle it wrests certain concessions from the capitalists. Yet the gains of the proletariat are constantly threatened as capitalists take advantage of every favourable situation to go back on their concessions and deprive the workers of their gains.

The economic struggle of the proletariat is of the utmost significance. Given an efficient leadership which adheres to the correct class positions the trade unions can resist the onslaught of the capitalists. At the same time the trade unions are a school of class struggle for the mass of the workers.

Conceding the importance of the economic struggle, Marx, nevertheless, always emphasised that it was directed against the consequences of capitalism and not against the root cause of the oppression and poverty of the proletariat which is the capitalist system itself. The proletariat cannot do away with the growing exploitation by the capitalists solely through the economic struggle of the trade union organisations. To achieve this it must wage a persistent political struggle. Only by overthrowing the power of the bourgeoisie will the proletariat eradicate class exploitation, the source of its poverty and privations.

The proletariat, therefore, struggles to overthrow the bourgeois system, abolish capitalist slavery and build up a new, socialist society. To achieve these objectives the proletariat has to have a militant political organisation, a revolutionary party of the proletariat armed with a knowledge of the laws of social development and capable of leading the workers, all working people in the struggle for the destruction of the system of capitalist exploitation and its replacement by a new system—communism.

Such a party is the Marxist-Leninist Party. As the vanguard of the working class, it heads the revolutionary struggle of the proletariat, rallies around it all the working people oppressed by capitalism and guides their struggle towards the achievement of the great aim—the triumph of communism.

The proletariat—
the grave-digger
of capitalism

The entire course of historical
development prepares the prolet-
ariat for its great historical role,
that of the grave-digger of

the bourgeois system and the builder of a new,
socialist society.

Capitalism unites the workers in joint labour. Life itself, the very conditions obtaining in capitalist society make the workers unite in the struggle against their exploiters. As capitalism develops, ruined small producers—peasants and artisans—swell the ranks of the proletariat. Becoming increasingly aware of the essence of capitalist slavery the workers strengthen their determination to struggle for their vital interests. The working class becomes a force capable of rallying all working people around itself and leading them in the decisive battle for the overthrow of capitalism and the revolutionary reorganisation of society along socialist lines.

The proletariat is the most advanced class in capitalist society. It is deprived of the means of production and is not interested in perpetuating private property. Only the proletariat fights consistently and to the end for the abolition of all exploitation, for socialism. The proletariat creates enormous wealth by its labour: factories, railways, houses and public buildings. United at large factories, trained by harsh capitalist labour discipline and tempered by decades of strike action and revolutionary struggle the proletariat develops into the genuine leader of all working masses. Only under the leadership of the working class can the other strata of the exploited population cast off the capitalist yoke and embark on the road to a free life worthy of man.

Chapter V

DISTRIBUTION OF SURPLUS VALUE AMONG VARIOUS GROUPS OF EXPLOITERS

The surplus value created by the labour of wage workers is the source of all unearned incomes in bourgeois society. It is distributed among various groups of exploiters as a result of the operation of spontaneous economic laws of capitalism, through incessant struggle and vicious competition.

I. Profit of Industrial Capitalists

The value of the commodity manufactured at a capitalist enterprise has two components. First, it is the value transferred from the means of production (part of the value of the machinery, the value of the raw materials, fuel, and so forth), and, second, it is the value newly created by the labour of the workers.

The capitalist does not spend his labour on the manufacture of commodities, he spends only his capital for that purpose. It is this expenditure, which also has two components, that interests him most. First, it is the expenditure of constant capital (which includes part of the value of the machinery, the value of the raw materials, fuel, and so forth) and, second, the expenditure of

variable capital (the workers' wages). The capitalist production costs of commodities consist of these two elements.

Comparing the value of the commodity with its production costs we shall see that the first component of the value of the commodity coincides with that of the production costs. As regards the second component, in the value of the commodity it is the value newly added by the labour of the worker, whereas in the production costs it is the value of the labour power.

But the value of labour power, as has been shown above, is smaller than the value created by the labour of the workers. The value created by the workers' labour embodies: 1) compensation for the value of labour power, and, 2) the surplus value.

It follows that the capitalist costs of production are lower than the value of the commodity, or the real production costs. The difference between capitalist production costs and the actual costs of production is surplus value.

**Capitalist profit
and its rate**

When capitalists sell commodities they not only recover production costs but also gain surplus value, the latter being a certain surplus over and above the costs of production. This surplus is calculated in relation to the total capital invested in the enterprise. The surplus value, taken in relation to the whole capital, is the profit.

One gets the false impression that profit is created by the entire capital—variable and constant—and that all parts of the capital are a source of profit in equal measure.

As has been mentioned above, the rate of surplus value is the percentage ratio of the surplus value squeezed out of the workers to the variable capital. The percentage ratio of the mass of the surplus value to the whole capital is the rate of profit.

Let us take, for example, a capital of \$300,000 and assume that constant capital is \$285,000 and variable capital is \$15,000. Let the surplus value be \$45,000.

Then the rate of surplus value will comprise $\frac{45}{15}$, or 300 per cent. The rate of profit will be $\frac{45}{300}$, or 15 per cent.

Since the total capital is bigger than its variable part, the rate of profit is lower than the rate of surplus value. At the same rate of surplus value, the rate of profit is the lower the smaller is the variable and the larger the constant capital. It is the rate of profit and not the rate of surplus value in itself that shows how profitable a given enterprise is to the capitalist.

Levelling of the
rate of profit

Capitalist economy consists of a great number of factories in diverse branches of industry. Capital of different size is invested in different enterprises. But in addition to difference in size, their capital also varies as regards organic composition.

The organic composition of capital is the ratio of the constant to the variable capital ($c:v$).

In enterprises employing a large number of workers where the expenditure on buildings, machinery, plant and raw materials is small, the organic composition of capital is low. Conversely, the composition of capital is high in enterprises where most of the work is performed by sophisticated equipment, or where very expensive raw materials are processed and relatively little money is spent on the purchase of labour power.

Rivalry between capitalists leads to a levelling of profits on equal sums of capital.

For the sake of simplification let us assume that a country has only three sectors, which have a capital of identical size but of different organic composition. Each sector has a capital of 100 million (dollars, pounds sterling or any other currency). In the first sector the total capital consists of 70 million constant capital and 30 million variable capital; in the second of 80 and 20 million respectively and in the third of 90 and 10 million respectively. Let the rate of surplus value in all three sectors be 100 per cent.

In that case the rate of surplus value squeezed from the workers in each of the three sectors will be equal to the variable capital, that is, 30 million surplus value will be produced in the first sector, 20 million in the second and 10 million in the third.

If the commodities are sold at their value the capitalists in the first sector will make a profit of 30 million, those in the second 20 million and those in the third 10 million. But the overall size of capital is identical in all three sectors. Such a distribution of profits is advantageous for the capitalists in the first sector, but entirely unfavourable for those in the third sector. The capital from the third sector will flow into the first. The rivalry which will develop between the capitalists will compel those in the first sector to lower the prices of their commodities and simultaneously enable the capitalists of the third sector to raise the prices of their commodities to a level that will make the profit in all three sectors approximately the same.

Thus, competition between capitalists leads to the dominance of the law of the average rate of profit. Like all laws of the capitalist mode of production it operates spontaneously and establishes itself through innumerable deviations.

Price of production In the above example the commodities produced in all three sectors are sold at 120 million. At the same time the value of the commodities in the first sector is 130, in the second 120 and in the third 110. Thus the prices of commodities differ from their value. The price of all three commodities is made up by adding the average profit (20) to the production costs (100). The price equal to the costs of production plus the average profit is called the price of production.

In capitalist society commodities are sold at the price of production and not at their value. This does not mean, however, that the law of value ceases to operate in capitalist conditions. On the contrary, it operates at full measure.

The price of production is merely a modified form of value. This can be seen from the following.

First, some industrialists sell their commodities above value and some below, but on the scale of society as a whole the sum of prices of production is equal to the sum of the values of the commodities.

Second, the profits of the whole class of capitalists are equal to the surplus value created by the whole unpaid labour of the proletariat.

Third, the drop in the value of commodities entails a drop in their prices of production. Conversely, a growth in their value entails a rise in their prices of production.

The levelling of the rate of profit means that part of the surplus value produced by workers in the sectors with a low organic composition of capital flows into sectors with a high organic composition of capital. Hence, the workers are exploited not only by the capitalists employing them, but also by the capitalist class as a whole. Only the struggle against the whole capitalist class, for the destruction of the bourgeois system, will lead to the emancipation of the working class.

Tendency towards a lower rate of profit The organic composition of capital grows as capitalism develops.

The mass of raw materials, machinery and equipment at enterprises increases with technological progress; the part of the capital which goes to pay for embodied labour expands rapidly, whereas the variable capital which goes to pay for live labour expands at a much slower rate.

Let us return to our former example. The total sum of the capital is made up of 240 million (dollars, pounds sterling, or any other currency) constant capital and 60 million variable capital. At a rate of surplus value of 100 per cent, the surplus value amounts to 60 million, which means that the rate of profit in our example is 20 per cent.

Let us assume that after ten years of accumulation the total sum of capital increased from 300 to 500 million. At the same time, owing to technological progress,

the organic composition of capital has grown and these 500 million now consist of 425 million constant and 75 million variable capital.

In that case, at an equal rate of surplus value (100 per cent), 75 million surplus value will be produced.

The rate of profit will be $\frac{75}{500} = 15$ per cent. In other words, at an unchanged rate of surplus value the mass of profit will increase (from 60 to 75) while the rate of profit will fall (from 20 to 15 per cent).

Thus, the increase in the organic composition of capital engenders a tendency for the average rate of profit to fall. Like all the laws of the capitalist mode of production, this tendency establishes itself through a maze of deviations.

Yet there are a number of factors counteracting the fall of the average rate of profit. They obstruct this tendency, retard the fall of the rate of profit and partly paralyse it. The principal factor is the rise in the degree of exploitation of the workers. The rate of surplus value grows as capitalism develops. Furthermore, the value of every machine, of every piece of equipment, drops as labour productivity increases. These are but some of the factors retarding the fall in the rate of profit.

The sinking rate of profit does not mean, however, that there is a decrease in the amount of profit, that is, in the sum total of the surplus value squeezed from the working class. The same reason which underlies the fall of the rate of profit—rising labour productivity—stimulates the growth of the amount of profit.

The tendency of the rate of profit to fall extremely aggravates the contradictions of capitalism.

The capitalists strive to counteract this tendency by intensifying the exploitation of workers, and this exacerbates the contradictions between the proletariat and the bourgeoisie.

This tendency of the rate of profit to fall also intensifies the struggle within the bourgeoisie itself. In their efforts to rake in a higher rate of profit, the capitalists export their capital to other countries where labour pow-

er is cheaper and the organic composition of capital is lower than in industrially advanced countries.

Industrialists form all sorts of associations in order to maintain prices at a high level. They hope to raise their profits that way and prevent the rate of profit from dropping.

The contradictions engendered by the tendency of the rate of profit to fall become particularly acute during crises.

2. Commercial Capital and Loan Capital

Commercial capital and commercial profit The surplus value created by the labour of workers is appropriated primarily by the industrial capitalist who shares his profits first and foremost with the owners of commercial and loan capital.

Commodities produced at a capitalist enterprise must be sold to enable the industrialist to purchase new means of production and hire workers and thus continue production. If the industrialist were to sell his commodity to the consumer himself, he would have to spend a certain part of his capital on equipping commercial premises, hiring his sales staff, and so forth. Delegating all these functions to the merchant, the industrialist shares with him some of his profit. He sells the merchant commodities at the factory price, which is lower than the price of production.

Commercial profit is therefore part of the surplus value which the industrialist concedes to the merchant. Expending a certain amount of capital, the merchant must receive on this capital a profit of the usual size. It would be unprofitable to engage in commerce if commercial profits were below the usual average rate.

Loan capital The capitalist does not have to spend the proceeds from the sale of his commodity immediately. He has at his disposal money which he does not need for the time being.

Thus, every capitalist has at certain times a surplus of money capital for which he cannot find immediate application. This is idle capital, that is, capital that does not produce profit. At other times the capitalist is short of money, for example, when he has to buy new equipment. To ensure the uninterrupted operation of his enterprise he must have reserves on which he can draw when he is short of money, but which lie idle at other times.

Since there are many capitalists, it happens that when one of them has a temporary surplus of money capital, another experiences a temporary shortage of money. Competition compels the capitalist to see to it that every part of his capital yields a profit. He, therefore, lends his free money.

Since money can be obtained on loan, the industrial capitalist does not have to keep substantial sums of money idle. Furthermore he can use a loan to expand production, increase the number of workers he exploits and, hence, obtain more surplus value.

The industrialist pays the lending capitalist part of the surplus value as a reward for the money capital placed at his disposal. This part of the surplus value is called interest. Loan capital is capital yielding interest.

Banks as dealers in capital. Interest

The movement of loan capital is effected by banks. On the one hand, they collect all idle capital, and, on the other, place money capital at the temporary disposal of capitalists who are short of it.

Initially, the banks were mainly intermediaries in the settlement of accounts. Entrepreneurs usually keep their money in a bank which makes payments according to their instructions. In view of this the banks collect all sorts of money incomes and lend them out to capitalists.

Thus, capital becomes a commodity which is used in settling accounts. Banks are dealers in capital.

Capital functioning as a loan is a commodity and therefore has a price. Its price is the interest, that is, the

sum of money paid for the use of capital of a definite size over a definite period. If \$3 are charged for a loan of \$100 for a year this means that the rate of interest (or simply the interest) is 3 per cent.

Banks charge different interest rates on different operations. They pay a smaller interest on deposits (passive operations) than they take on loans (active operations). They also charge different interest on loans, depending on the time-limit for which the loan is granted, and on other conditions. Banks likewise pay different interest on deposits.

The rate of interest fluctuates frequently. If the supply of money is greater than the demand for it, the rate of interest drops, and vice versa. Under normal conditions the rate of interest is limited by the rate of average profit. In exceptional cases, however, when, for example, the capitalist is faced with bankruptcy, the rate of interest may rise above the average rate of profit.

Generally, at every given moment only a small number of depositors withdraw their deposits. The withdrawal of money is usually compensated by the influx of new deposits. The bank, therefore, can pay back the deposits to all those who demand it even though it keeps a comparatively small amount of money in its safes, while the bulk of the money capital is placed at the disposal of capitalists in the form of loans.

The picture changes radically during crises, wars and other upheavals. The mass of depositors rush to banks to withdraw their deposits. If the bank has been unable to prepare for this contingency and accumulate a sufficient sum of money in its safes by borrowing from other banks or the government, it goes bankrupt.

Joint-stock companies Some enterprises, for example, railway construction, demand huge capital outlays. Joint-stock companies are established to raise large sums of capital for such purposes.

Joint-stock companies, which became widespread in the latter half of the 19th century, are enterprises

whose capital is owned by many people. Every owner holds a definite number of shares. A share is a certificate confirming that its holder has invested a certain amount of money in the enterprise.

Formally, a joint-stock company is governed by the general meeting of shareholders which appoints the board of directors and officials, hears and confirms reports on the company's operations and passes decisions on important issues.

Bourgeois ideologists claim that the spread of joint-stock companies results in what they call "democratisation of capital". In doing so they have every praise for the issuance of small shares, that is, shares of relatively small denomination. Workers who buy these shares, they allege, become co-owners of enterprises. According to them this means that capital is dispersed, that it assumes the character of "people's" capital.

In fact, however, the small shareholders have no influence on the company's activities. At their meetings each shareholder has as many votes as the number of shares he holds, and, therefore, the true owners of the company are the big shareholders, that is, those who hold a large number of shares. The joint-stock form of enterprise does not in the least mean that there is a democratisation of capital. On the contrary, it enables large capital to subject and use to their own ends the accumulations of small and medium capitalists and a certain portion of the savings of the upper echelons of factory and office workers. The joint-stock form of enterprise greatly promotes the growth of capital and the amalgamation of production.

Separation of the ownership of capital from capital investment in production

Up to a certain period the capitalist was both the owner and the manager of the enterprise. The spread of credit and especially of joint-stock companies changed this state of affairs.

The distinguishing feature of loan capital is that it is used in production by a person or persons other than its owner. The ownership of capital is thus separated from capital investment in production.

The capitalist becomes an owner who has nothing whatever to do with production which is run by hired personnel—managers and directors. With the development of capitalism a growing number of people derive huge profits from capital without lifting a finger to earn them.

The separation of ownership of capital from capital investment strikingly shows that the capitalist ownership of property is unnecessary for production, and that this ownership is of a parasitical nature.

3. Ground Rent Under Capitalism

Private ownership of the land and capitalist rent In almost all capitalist countries there are vestiges of feudalism of which the most important is private ownership of the land. Enormous tracts are owned by landowners who use their right of property to exact a toll from society. This toll is capitalist ground rent.

In the form of rent the landowners appropriate only a part of the surplus social product, a part of the surplus value.

The theory of rent proceeds from the following propositions. The landowner leases land. The tenant is the capitalist who runs the farm with the help of hired workers. The surplus value they produce goes first and foremost to the capitalist tenant. He keeps a part of it—the profit on his capital—and is forced to pay the other part, a certain surplus profit, to the landowner as ground rent.

It often happens that the landowner does not lease his land but hires workers himself to run the farm. In that case the rent and profit are appropriated by one and the same person. In addition, a great role is played by rent collected from the peasants. To get a better idea of these complex relations it is necessary to know the essence of capitalist ground rent.

There are two forms of ground rent, differential and absolute.

Differential rent

Different plots of land differ in fertility. The same expenditure of labour will yield a more abundant harvest on a more fertile plot. The distance of the plot from towns, rivers, the sea or railways is also a crucial factor. The owner of a farm which is sited more advantageously saves a lot of money on the transportation of his products.

Let us consider three plots of the same size but of different fertility. The lessee of each spends \$1,000 a year on workers' wages, the purchase of seed and the maintenance of cattle. Let us also assume that the average profit is 20 per cent.

But since the plots vary in fertility, the grain crop will not be the same: 100 centners on the first farm, 120 on the second and 150 centners on the third. The price of production on all of them is the same—\$1,200 (costs of production plus average profit). It means that on the first farm the production of a centner of grain will cost \$12, on the second \$10 and on the third \$8.

The market, however, does not take into account the different fertility of the plots. The price per centner of grain is the same, no matter where it was grown. Normally, the market needs grain from all three plots. Therefore, the market price must be \$12, that is, the price level on the poorest land. And since society needs the products of all three plots, it is this price that is established on the market.

The difference in the location of the plots is no less important than the difference in their fertility. The tenant of the remotest plot spends more on the production and delivery to the market of one centner of grain than does the tenant of a plot located closer to the market.

In industry the price of production is determined by average production conditions. The price of production of agricultural goods is formed in a different way. It is determined by the conditions of production on the worst of the cultivated plots. The area of land is limited. For this reason it is impossible arbitrarily

to set up a desired number of equally good plots, whereas in industry an enterprise can be equipped with any number of more efficient machines. The surplus profit derived from the expenditure of capital on a better plot, or the more productive use of capital, forms the differential rent.

But, to return to our example, let us assume that the market price of grain is \$12 a centner.

The tenant of the first (worst) plot will get \$1,200 for his harvest of 100 centners. This sum is equal to his production outlay (\$1,000) plus the average profit (\$200).

The tenant of the second plot will get \$1,440 for his 120 centners. He will make \$240 over and above the production outlay and average profit.

The tenant of the third plot will receive \$1,800 for his 150 centners, that is, he will make \$600 over and above the production outlay and average profit.

There is competition between capitalists. Any number of them willingly return the surplus over the average profit to the landowners as rent and keep the average profit. The surplus over and above the average profit is therefore collected by the landowners as differential rent. The surplus yielded by the outlay of capital on better soil forms the differential rent.

The surplus over and above the average profit received from better plots arises irrespective of whether land is in private hands or not. But private ownership of the land enables the landowner to appropriate this surplus in the form of differential rent.

Like all surplus value in general, this surplus profit is created by labour alone. On more fertile plots labour is more productive than on less fertile ones. The difference in fertility predetermines the difference in labour productivity.

Absolute rent In addition to differential rent the landowner receives absolute rent.

Let us recall our example again. No surplus profit forms on the first, the worst, plot. We have assumed

that the tenant of the worst plot of land must sell grain at a price which is made up of his outlay plus the average profit, that is, at the price of production.

But the landowner will not allow the tenant to use it free of charge. Hence, the tenant of the worst plot must make a certain surplus over and above the average profit when he sells his wheat to pay the landowner for the right to invest his capital in the land. This means that the market price of agricultural products must be higher than the price of production on the worst plot.

Agricultural products are therefore sold at prices that are higher than the price of production. The surplus thus received goes to the landowner. This is absolute ground rent. Like differential rent, absolute rent is part of surplus value.

Ground rent is a toll that society under capitalism is compelled to pay the class of landowners. As capitalism develops the size of this contribution increases. Yet, the landowner is an absolutely unnecessary figure for capitalist production. His income is of a purely parasitical nature.

Differential rent deprives society of all the advantages accruing from the natural fertility of the soil, and transfers them to the landowners. Absolute rent makes agricultural products—foodstuffs for the workers and raw materials for industry—more expensive. Were it not for absolute rent these products would have been sold at the production price. But because of absolute rent they are sold at prices above the production price.

Rent through exploitation of the peasants

Frequently land is leased from the landowners not by capitalist entrepreneurs but by small farmers who cultivate the land by their own labour and do not hire working hands. Where then does the rent come from, since there is no hired labour to produce surplus value?

In this case the source of ground rent is the exploitation of the peasants by the landowner. The peasant

gives part of the products of his labour as rent to the landowner. Very often this part is so large that the peasant has to lead a half-hungry existence while carrying on back-breaking work. Marx wrote that under capitalism the exploitation of the peasants differs from the exploitation of factory workers in form only.

The theory of "diminishing returns" In their efforts to explain away the high cost of living caused by the payment of rent to the landowners, the advocates of capitalism refer to "natural laws" and claim that agricultural production is affected by the law of "diminishing returns".

This "law", they say, is inherent in nature and does not depend on the social system. They allege that every subsequent amount of labour applied to the soil bears less fruit than the preceding one.

The "law of diminishing returns" was invented for the purpose of whitewashing capitalism and absolving it of the responsibility for the poverty of the working people. Capitalism, its advocates say, is not responsible for the privations suffered by the popular masses. These privations, they say, are due to the fact that the population grows at a faster rate than the production of agricultural products. That is why the most outspoken of them call wars and epidemics a boon because they diminish the population.

The so-called law of diminishing returns is built on sand. It ignores the most important consideration, namely, the technological level of production, the state of the productive forces, and proceeds from the false assumption that technology in agricultural production remains unchanged as a rule. In effect, however, the additional labour applied in crop farming is usually connected with technological advance, with the introduction of new and better methods of agricultural production.

Lenin compared the advocates of the "law of diminishing returns" with people who say that as a rule trains stand at stations, and move only as an exception.

Aggravation of the antithesis between town and country

Capitalism deepens and aggravates the antithesis between town and country. New technology, inventions and new machinery are rapidly introduced in industry. Until recently agriculture was based on backward equipment and manual labour even in the most developed capitalist countries. Machinery and advanced agricultural techniques were widely introduced in most advanced capitalist countries only after the Second World War. This transition from manual labour to modern machine production is attended by the impoverishment and liquidation of millions of peasant farms which are swallowed up by large-scale capitalist enterprises. In the economically less developed countries agriculture is still at an extremely low technical level.

Extricating the village from the narrow confines of natural economy capitalism at the same time dooms the broad masses of the rural population to increasing exploitation. Even in the most developed capitalist countries the bulk of the peasants are cut off from urban culture. The antithesis between town and country is one of the deepest contradictions of the capitalist system.

Community of interests of the working class and the working peasantry in the struggle against exploitation

Capitalism condemns not only the working class to insecurity, but also the bulk of the peasants cruelly exploited by the landowners and the capitalists.

The development of capitalism leads to the stratification of the peasants. The small top echelons in the rural areas get rich by ruthlessly exploiting the working peasantry. As a result many peasants become ruined, sell their farm and become either farm hands or go to towns in search of employment. The great intermediate stratum of the middle peasantry live in conditions of instability and uncertainty.

In agriculture, as in industry, large-scale production has enormous advantages over small-scale production. Machinery and other technical improvements can be

used in large-scale production, whereas small-scale production cannot afford them. Even though the peasants do their utmost to preserve their seeming economic independence, many small farms become ruined and their owners become either farm hands or wage workers at industrial enterprises.

Thus, under capitalism the mass of working peasants suffer cruelly from exploitation. On this basis there arises a community of interests between the working class and the peasantry in the struggle against the exploiters—the capitalists and the landowners—in which the leading role is played by the proletariat as the most progressive social class.

Chapter VI

CAPITALIST REPRODUCTION AND ECONOMIC CRISES

1. Simple and Extended Capitalist Reproduction

Production and reproduction

The mass of commodities being produced in any country is in constant movement. Various commodities are produced, used up and reproduced. This constant renewal—uninterrupted repetition of production—is called reproduction. Reproduction is essential for the existence of society whatever its social system. If a society was to produce the same amount of products year after year this would be simple reproduction.

Before the rise of capitalism the productive forces developed at a slow rate, and reproduction was close to the simple type. What is characteristic of capitalism is not simple but extended reproduction.

Any society reproduces not only the mass of products but also the social relations of production. If production is capitalist in form, reproduction also takes this form.

The social product and the national income

The entire mass of material wealth produced in society over a definite period, e.g., a year, forms its social product. The social product is divided into two parts. One part compensates for the wear and tear of equipment, the value of consumed fuel, raw and other materials. This is necessary for reproduction. The other part is the value newly created during the year. This is the country's national income.

In capitalist society this income is only nominally national. The bulk of it is appropriated by the capitalists and is spent, first, on their personal needs and, second, on expanding production.

A considerable portion of the national income is appropriated by the bourgeois state. State budget allocations are spent mainly on the maintenance of the state apparatus, which is an instrument of violence used by the exploiters against the exploited, on the arms race and on assistance to capitalist firms experiencing financial difficulties.

Contradictions of capitalist reproduction Taking up production a capitalist buys the means of production and labour power. As a result of production capital takes the form of a definite amount of commodities. The capitalist sells these commodities and realises a definite sum of money with which he buys new means of production, hires workers and so forth. Hence, every capital moves in a circle. Reproduction is contingent on the constant circulation of capital.

In bourgeois society there are many capitalists and consequently many capitals. It is therefore essential that the entire mass of capitals should be able to circulate. The actions of individual capitalists and therefore the movements of individual capitals are closely interlinked. This multifold connection makes itself felt on the market where capitalists realise (sell) the commodities produced at their enterprises.

As capitals circulate they become intertwined to comprise the movement of social capital as a whole. Social capital is not just a simple sum total of all individual capitals. In the social capital the individual capitals are interconnected. Though independent of each other, they are nevertheless contingent on one another. This contradiction becomes manifest when the finished product is sold, in the course of the reproduction of the total social capital.

In the course of capitalist reproduction the relations of the exploitation of labour by capital are not only

repeatedly renewed but also widened. More and more workers fall into the clutches of capitalist exploitation whose rate steadily increases. Thus, capitalist reproduction is invariably bound up with a growth of class contradictions in bourgeois society.

**The problem of
realisation**

The annual product of a country is made up of a multitude of different commodities. As regards their material form, the entire mass of diverse commodities is divided into two major groups: 1) means of production, and 2) articles of consumption. Correspondingly, production as a whole is also divided into two groups: 1) production of the means of production, and 2) production of articles of consumption. The material form of every product determines its further role in the reproduction process.

At the same time when selling the produced mass of commodities the capitalist must realise its value to be able to continue production. We know that the value of a commodity produced at a capitalist enterprise consists of 1) constant capital, 2) variable capital, and 3) surplus value. These three components also make up the value of the whole annual product of capitalist society. The division of the annual product according to value predetermines the diverse roles which its various components are to play in the future.

In the process of realisation each part of the annual product must be exchanged in a way enabling it to play the role assigned to it both as regards material form and value. This calls for a definite quantitative correlation between the separate parts of social production both in value and physical form. It is this that constitutes the problem of realisation of the social product.

**Conditions of realisation
in simple and extended
capitalist reproduction**

For the sake of simplification let us assume that the whole economy of a country is conducted along capitalist lines. In that case reproduction will proceed as follows.

The aggregate of commodities produced in the course of a year by enterprises turning out means of produc-

tion must be equal to the aggregate of the means of production consumed in that period at enterprises of both groups. The mass of commodities manufactured at enterprises turning out consumer goods must be equal in value to the income of all the workers and capitalists of both groups of enterprises.

In this way, an essential condition of simple reproduction is that the sum of the variable capital and the surplus value of the first group should be equal to the constant capital of the second group.

Let us now consider the conditions of realisation in extended reproduction. To increase production the existing enterprises must be enlarged or new ones built. In either case a certain amount of new means of production must be put into operation. These means must be manufactured in the preceding period.

It follows that the annual product of the first group of enterprises, those producing the means of production, must contain a certain surplus over and above the amount needed for simple reproduction. This means that the sum of the variable capital and the surplus value of the first group must be greater than the constant capital of the second group.

Such are the essential conditions of the realisation of commodities in simple and extended capitalist reproduction. Unimpeded reproduction depends on a constant, complex relationship between the individual branches. The complexity of the process of capitalist reproduction inevitably results in its violation by periodic economic crises.

2. Economic Crises Under Capitalism

Crises of
overproduction

Society witnessed numerous upheavals and catastrophes before the capitalist system emerged and

asserted itself. Then they were caused by floods, droughts, devastating wars, epidemics and other natural and social disasters which sharply decreased pro-

duction, destroyed the fruits of labour of many generations and doomed people to extreme poverty and hunger.

But only capitalism has given rise to crises of overproduction that bring suffering to working masses because "an excess" of commodities is produced.

However, is it true that too much coal, grain, clothes and housing is being produced? Of course, not. The demand for grain, coal, clothes is enormous. Simply too many commodities are produced not as compared with the actual requirements of the majority of the working people but as compared with their purchasing power.

Being concerned solely with selling commodities at a price that will bring in a sufficiently high profit, capitalists care little about satisfying the requirements of society. But during crises they are unable to do this. And it is the great discrepancy between the mass of commodities produced at capitalist enterprises and the effective demand of the population that leads to economic crises of overproduction.

During the crises of 1929-1933 in the United States wheat and maize instead of coal were used for heating purposes. Millions of pigs were destroyed and a large portion of the cotton harvest was left to rot in the fields. In Brazil millions of sacks of coffee were thrown into the sea. Herds of cattle were slaughtered in Denmark and thousands of tons of fruits were destroyed in France and Italy.

**Inevitability of crises
under capitalism**

Economic crises of overproduction are engendered by the basic contradiction of capitalism (see Chapter III). This is the contradiction between the social character of production and the private capitalist form of appropriation of the fruits of production.

The basic contradiction of capitalism leads to anarchy of production and the limited consumption of the masses, owing to the exploitation of labour by capital. The anarchy of capitalist production and the exploitation of labour by capital make the economic crises

of overproduction, that periodically shake capitalist countries, inevitable.

In their thirst for profits the capitalists, spurred on by the competitive struggle, strive to produce more goods. At the same time capitalist exploitation limits the consumption level of the working people and results in a relative fall in effective demand which in turn leads to a decline in commodity sales.

The aim of capitalist production is not satisfaction of social needs but amassment of profits at the expense of the workers' unpaid labour. In the final count, however, even under capitalism production is connected with consumption and depends on it.

An expansion of production temporarily increases the sales of the means of production. The enterprises using these means of production turn out an ever increasing mass of consumer articles. But then there arrives a moment when it becomes impossible to sell the rapidly growing amount of consumer articles due to the insecure position of the masses, for the expansion of production is not accompanied by a corresponding growth in consumption. Sales, therefore, inevitably run up against the wall of the limited consumption of the working masses.

The capitalist cycle
and its phases

Crises of overproduction emerged
together with large-scale capital-
ist industry.

In the periods between crises the capitalist industry goes through a definite cycle. On the eve of a crisis production reaches its highest level. There is already overproduction although it is not yet apparent. Frequently, though not always, financial collapse is the first indication of the imminent break-down. Large firms go bankrupt, stockbrokers, bankers and speculators panic, and a feverish hunt for money begins; creditors demand payment of debts, depositors rush to their banks to withdraw their money, and a great number of small enterprises go to ruin.

The crisis continues. Warehouses are packed with goods which cannot be sold. Many enterprises close;

workers are sacked, and the surviving enterprises have to curtail or even temporarily suspend production. A period of stagnation (depression) sets in. Industry marks time.

This state of affairs forces the capitalists to intensify the exploitation of workers, lower their wages and make them work harder. At the same time the capitalists strive to cheapen production by introducing technical improvements and make it profitable even in conditions of low demand. Enterprises are re-equipped and there is an extensive renewal of constant capital. The demand for the means of production rises.

There is a change from stagnation to revival. The surviving enterprises resume production and expand. Every industrialist attempts to recoup his losses caused by the crisis. Production regains its former level.

Gradually it surpasses its former level and a boom sets in. Production expands without due regard for effective demand. But the demand is limited and after a time increased production inevitably encounters the narrow confines of the market. A fresh crisis breaks out and the cycle begins all over again.

Significance of crises

Crises expose the deep-rooted contradictions of capitalism. During crises the fruits of labour of the working class and the toiling peasants are destroyed. The productive forces of society are wasted.

Thousands of workers are thrown out into the street and doomed to protracted unemployment. Workers who had reached a certain age are forever deprived of the hope of ever returning to the bench. The rising generation of the working class is barred from production and there is also unemployment among the intellectuals.

The capitalists take advantage of the crises and unemployment to lower wages and worsen labour conditions. That is why crises not only bring down enormous want on the unemployed but also deteriorate the position of the working class as a whole.

Many bourgeois scientists attempt to gloss over the true nature and the causes of crises. In an effort to show that crises are not inevitable in capitalist society they attribute them to subjective causes which allegedly can be eliminated even under the capitalist system of economy.

The ultimate cause of crises, they claim, is an accidental disturbance in the proportionality between the various branches of production or "underconsumption", and they recommend the arms race and war as a means of doing away with them. Actually, however, in capitalist society both the lack of proportionality in production and "underconsumption" are not chance occurrences. They are unavoidable because they are the products of the basic contradiction of capitalism which cannot be abolished so long as that system exists.

Other advocates of capitalism assert that crises are inevitable under any social system. This fabrication is fully exposed by the fact that in the Soviet Union and other socialist countries economic crises have disappeared following the abolition of the capitalist system. The purpose of socialist production is the satisfaction of the people's material and cultural requirements. With this aim in view socialist society rapidly develops all branches of the economy. Based on public ownership of the means of production socialist enterprises function to satisfy the constantly growing requirements of the economy and of all the working people. And since these requirements are growing all the time, socialist enterprises consistently expand and improve production and have every possibility of selling their output.

Chapter VII

BASIC FEATURES OF IMPERIALISM

**Lenin's scientific
theory of imperialism**

In the last third of the 19th century the capitalism of free competition was replaced by monopoly capitalism—imperialism. Lenin made a Marxist analysis of monopoly capitalism. Disclosing the economic and political essence of imperialism he showed that it is a special stage of capitalism, its highest and last stage. Imperialism is the inevitable upshot of capitalist development. The transition from pre-monopoly capitalism to imperialism was prepared by the entire development of capitalism, its productive forces and relations of production and its insoluble contradictions. Lenin described the main economic features of imperialism as follows:

- 1) concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life;
- 2) the merging of bank capital with industrial capital and the creation, on this basis, of the "finance capital" and a financial oligarchy;
- 3) the export of capital, as distinguished from the export of commodities, acquires exceptional importance;
- 4) the formation of international monopolist capitalist associations which share the world among themselves, and

5) the territorial division of the whole world among the biggest capitalist powers is completed.

1. Domination of the Monopolies and Finance Capital

Concentration of production and capital The free competition which arose in the course of the development of capitalism invariably led to the triumph of large enterprises over small ones, to the ruin of small and medium enterprises and their being taken over by large ones. Thus, free competition brought about concentration of production—the rise of large enterprises employing increasing number of workers who process an enormous mass of raw materials and produce the bulk of the industrial output.

Today large enterprises with 1,000 and more workers account for a negligible part (one or two per cent) of the total number of enterprises in major capitalist countries. But they employ from a third to two-fifths of all the factory and office workers in the manufacturing industry and turn out the bulk of industrial production. In the US manufacturing industry, which consists of 450,000 firms, 500 of the largest companies account for two thirds of the total output, and 100 giant associations turn out over a third of the manufactured commodities.

Modern scientific and technological progress is largely conducive to the concentration of production. Technological progress, particularly the introduction of automation and cybernetics, makes it necessary to enlarge production still further at the cost of enormous capital investments in order to ensure its effectiveness.

The concentration of production is accompanied by a concentration of capital, i.e., the concentration of an ever larger amount of capital in single hands. A powerful lever stimulating the concentration of capital is the spread of joint-stock companies. Today over

90 per cent of US industrial output is produced by corporations (joint-stock companies). This is also the case in other capitalist countries.

In all capitalist countries the concentration of production is most rapid in all branches of heavy industry and in the new industries which began to mushroom in the imperialist era, viz., mining, metallurgical, electrical, engineering and chemical industries.

Rise and growth of monopolies

The concentration of production and capital paves the way for the rise and growth of monopoly associations. At a certain stage of its development concentration leads directly to monopoly.

What is a monopoly? It is an agreement between, or a union or association of, capitalists. An individual large enterprise can also be a monopoly. Whatever their form, all monopolies have a common aim, that of dominating production and the market and reaping super-profits.

So long as production in each branch is divided among hundreds and thousands of independent small and medium enterprises, it is difficult to establish a monopoly. The situation changes as a result of concentration of production and capital. Only several dozen large enterprises are left in a branch. It is much easier for them to enter into agreement than it would be for hundreds of medium and thousands of small enterprises.

By the beginning of the 20th century monopolies moved into key positions in the economies of capitalist countries.

Monopoly domination is imperialism's inherent economic feature. The economic essence of imperialism lies in the suppression of free competition by the monopolies.

Monopolies rule undividedly in all capitalist countries. They are omnipotent in production, commerce and credits. They control markets and sources of raw materials, and have scientific personnel and skilled workers at their disposal. Like octopuses they have

spread their tentacles to all spheres of economic and political activity.

The domination of monopolies, their size and importance in the economies of capitalist countries have grown immeasurably in the past decades. A lion's share of production in a number of key industries is now controlled by a single monopoly. "Big twos", "big threes", "big fours", etc., dominate the production of other commodities.

In the United States, according to estimates, four—and eight—giant corporations respectively accounted for 53 and 70 per cent of the iron and steel output, 78 and 96 per cent of the production of synthetic fibre, 65 and 70 per cent in organic chemistry, 75 and 81 per cent of the total number of cars manufactured in the country, 59 and 83 per cent of the aircraft and 65 and 90 per cent of the tractors.

In 1972 five hundred giant industrial monopolies in the United States accounted for 66 per cent of the gross industrial output and netted 75 per cent of the total profits in industry. Their enterprises employed 75 per cent of the US industrial labour force.

The world's largest capitalist monopoly is the US automobile trust General Motors. In 1971 its trade turnover amounted to over \$28,000 million; it had a capital of \$14,200 million and netted a profit of \$1,700 million. Its enterprises employed 773,000 people.

Main forms of monopoly

The simplest form of monopoly are short-term price agreements.

The agreement obliges the signatories to maintain sales prices specified in the agreement for the period of its duration. The next step in monopoly development are agreements on prices and sales called cartels and syndicates. The members of a cartel divide the sales market among themselves and are obliged not to lower commodity prices below a fixed level. Frequently, a cartel fixes a sales quota for each participant.

A trust is a higher form of monopoly association. Entering a trust enterprises lose their independence and

unite into a single enterprise; their owners become shareholders of the trust, and receive dividends according to the number of shares they hold.

Trusts often join still larger monopoly associations called concerns which embrace dozens and in some cases hundreds of enterprises in different branches of industry, and also commercial firms, banks, transport companies and so forth. The group dominating the concern controls enormous sums of capital.

Monopolies and competition

Monopolies are the very antithesis of free competition which prevailed in the pre-monopoly stage of capitalism. At the same time the domination of monopolies does not abolish competition. On the contrary, it becomes even more violent and destructive.

Even in the most advanced capitalist countries pre-monopoly and sometimes pre-capitalist forms of economy exist side by side with the monopolies. In the developing countries the share of these forms of economy is even higher.

In the capitalist world peasants make up a considerable part of the population and there is a large number of artisans working in small workshops, petty traders, and also independent enterprises which have not joined monopoly associations. Though the monopolies do not embrace all social production they are dominant because they control all the commanding heights of the economy.

In these conditions a violent struggle flares up between the monopolies and non-monopoly enterprises, between monopolies in the same branch, between monopolies in different branches, and, finally, in the monopoly associations themselves. The oppression and arbitrariness of the monopolies in capitalist society make competition—a war of everybody against everybody—particularly ruthless and destructive. The combination of monopoly and competition generates deep contradictions and heightens the anarchy of production typical of the capitalist system.

In the course of this merciless competitive struggle

the largest monopolies swallow up their weaker rivals, or force them to join the monopoly, with the result that dominating positions are won by giant monopolies embracing not just one but a number of branches of the economy. Such companies called conglomerates set the tune in the economy of capitalist countries.

The formation of banking monopolies To understand the actual power of the monopolies it is essential to take the changed role of the banks into account.

In banking, as in industry, free competition inevitably leads to concentration. The number of banks decreases, but their size and the number of their transactions grow. A handful of the biggest banks come to the fore. They accumulate huge sums of free money resources which have to be profitably invested.

Concentration in banking, as in industry, leads to the formation of monopolies. The leading role in banking passes over to a small number of the biggest banks which monopolise the money market.

In the United States, for example, 50 of the biggest commercial banks, which make up less than 0.5 per cent of all the banks in the country, account for 47.4 per cent of all deposits and 41.8 per cent of the loans issued. In Italy six banks making up 1.5 per cent of the country's crediting organisations have 62 per cent of the total deposits and issue 62 per cent of the loans.

Once they have subordinated the money market, banking monopolies strive to gain control over all savings. They increase their financial power, establish close contacts with insurance companies, financing societies and investment associations. These financial institutes are turned into branches of one or another banking monopoly dominating a specific field. Insurance companies accumulate vast sums of money. In recent decades the promulgation of pension laws led to the formation of pension funds which have huge sums of money on their accounts. Deductions from the wages and salaries of working people constitute the principal source of all this money.

Finance capital

The concentration of industry and banking, the formation of industrial and banking monopolies bring about a substantial change in the relations between banks and industry.

Originally, banks were intermediaries in the making of payments. But as capitalism developed, the credit operations of the banks expanded and they became merchants in capital. Banks granted the capitalists short-term loans. As the sum of deposits mounted the banks established closer links with industry. Acquiring the shares and bonds of various companies, they became co-owners of industrial, commercial and transport enterprises. In turn, industrial monopolies hold shares in the banks connected with them.

This gives rise to a "personal union" of the heads of banking and industrial monopolies. Bank directors are brought into the management of industrial enterprises. At the same time industrial monopolies have their representatives on the governing bodies of banks. The same people head the largest monopoly associations in banking, industry and commerce, in the most diverse branches of the capitalist economy.

There is an increasing coalescence of banking and industrial capital. The joint capital of banking and industrial monopolies is called finance capital. Tracing the rise of finance capital and the essence of this concept, Lenin noted the following factors: concentration of production, the monopolies arising therefrom and the merging or coalescence of the banking and industrial monopolies. Imperialism is the epoch of finance capital.

The domination of finance capital strikingly manifests the parasitical nature of capitalist private property. In the pre-monopoly stage of capitalism private property meant that the owner of the means of production had the right to appropriate the labour and the fruits of labour of others. In the epoch of finance capital the monopolist controls not merely the labour of others, but also other people's capital, which is frequently greater than his own. The monopolists appro-

priate the bulk of the profits from other people's capitals and gain increasing control over these capitals.

The financial oligarchy The growth of monopolies and finance capital places the keys to a country's economic life in the hands of a handful of the biggest bankers and industrialists in every capitalist country. The domination of the financial oligarchy is the concrete expression of the power of finance capital (the Greek word "oligarchia" means "rule by a few"). Possessing unprecedented power and authority, the heads of banking and industrial monopolies arbitrarily control the economy of capitalist countries whatever their form of government.

The domination of the financial oligarchy is inevitably felt in all spheres of public life irrespective of the country's political system. The financial oligarchy fixes the reactionary domestic and foreign policy course. A small handful of the biggest businessmen, having control over thousands of millions, initiates aggressive policies, invasions, the arms race and preparations for new wars. The financial oligarchy controls the bourgeois press, science and art. It bribes top civil servants and MPs, "moulds" public opinion to suit its own ends, and controls all the mass media which are used to poison the minds of the masses. It dominates society with the help of personal union formed both between banks and industry, and between monopolies and the government. The financial oligarchy imposes monstrous contributions on the population in their respective countries and enmeshes other countries in a web of financial dependence, the economic foundation of the exploitation of the part of the world which is subject to imperialist rule, and primarily the developing countries.

Groups forming the financial oligarchy The tune in all capitalist countries is set by powerful industrial and financial empires resting on the domination of a handful of magnates over vast sums of other people's capitals. In present-day capitalist society concentration of capital goes beyond the level of concerns. The highest form of monopolisation

are financial-oligarchic groups, of which there are twenty in the United States, ten in Britain and France, and six or seven in Japan.

The nucleus of a financial group are banking and industrial monopolies closely associated with each other. The coalesced élite of the head companies ensures their control over numerous other companies operating in various branches of the economy. Many companies are within the sphere of influence of several financial groups, which take over key positions through shareholdings, personal unions, long-term credit and financial, organisational and technical ties and also through the conclusion of special agreements.

Among the principal financial groups in the United States the leading role is played by eight New York groups controlling assets worth \$214,000 million. Over 60 per cent of the assets controlled by the New York groups are concentrated in the hands of the Morgan and Rockefeller groups.

The core of the Rockefeller group consists of the Standard Oil Trust and the Chase Manhattan Bank, the largest in the United States. The group controls many corporations in a number of branches of the economy.

The Morgan group is a still more powerful financial empire. Built around the banking house of Morgans it dominates a number of giant industrial monopolies, including the US Steel Corporation, General Motors, General Electric, the Pullman Corporation, a telephone and telegraph company, dozens of electric stations and a number of major railway companies and banks.

2. The World Capitalist System of Economy. The Struggle of the Imperialist Powers for World Domination

**The rise of the world
capitalist system
of economy**

Having reached its monopoly stage capitalism has become a world system with concentration developed to such an extent that almost the whole world became subjugated to monopoly capital either in the form of colonial bondage or the

enmeshment of other countries in innumerable webs of financial exploitation. Lenin noted that imperialism means that capital has transgressed the boundaries of national states, that finance capital has become inter-linked to an extent that leads to the internationalisation of capital, the internationalisation of economic relations.

Bourgeois ideologists portray the world capitalist system of economy as a great boon, and claim that the rise of this system has enabled mankind to benefit from scientific and technological progress and the international division of labour. They allege that capitalism has given the formerly backward countries all essential conditions for economic and cultural growth.

In effect, however, all the gains of social progress were appropriated by the monopolies of the most advanced capitalist countries, and the people of the colonies and semi-colonies were deprived of even elementary conditions for human existence and were doomed to poverty and hunger by imperialism.

The world capitalist system of economy arose on the basis of relations of domination and subjection. In it the world ruled by capital became divided into two parts: on the one hand, there was a handful of advanced capitalist countries possessing vast finance capital and exploiting the other part of mankind, and on the other, a tremendous majority of the world population consisting of oppressed and exploited people in colonies and dependencies.

This system developed from such manifestations of monopoly domination as the export of capital, the economic division of the world between monopolies and the completion of the territorial division of the world between the major powers.

The export of capital The export of commodities was typical of pre-monopoly capitalism with its free competition. Under imperialism and monopoly rule the export of commodities grows tremendously. But it is the export of capital that is the most characteristic feature of imperialism.

In the advanced countries the accumulation of capital assumes gigantic proportions under monopoly rule. On the eve of the First World War about 75 per cent of the world's industrial production and 80 per cent of the securities were concentrated in the four biggest capitalist countries: the United States, Britain, France and Germany. Thus, a small number of capital-rich countries held a monopoly of surplus capital.

Capital becomes surplus, first, because the low living standard of the masses impedes the further growth of production, and, second, because of the growing unevenness in the development of the different branches of the economy. As a result surplus capital is exported to countries where capital yields a high rate of profit.

Bourgeois ideologists claim that the export of capital by the imperialist countries is a "boon" for the backward countries. By investing their capital the rich countries, they say, help the poor countries develop their industry, build railways and advance along the road of progress.

Actually, however, the export of capital is a means of subjugating some countries to others and becomes the basis of imperialist oppression. Capital-importing countries become dependent on the imperialist powers. By exporting capital the financial oligarchy of a few developed capitalist countries fetters the backward countries. A stream of surplus value—interest on loans and the profits of enterprises in foreign countries—flows steadily to the giving states. The income from exported capital is a major source of enrichment for the monopolies in the principal capitalist countries.

At present, when the peoples of the newly free developing countries are striving to abolish the heavy aftermath of colonial oppression, foreign monopolies take advantage of their capital investments in those countries to perpetuate their economic domination.

Simultaneously, there has been a substantial increase in the export of capital from some advanced capitalist countries to other advanced capitalist countries. There

has been a particularly high increase in the export of capital to Canada and Western Europe by United States monopolies.

A major consequence of the export of capital is the growth of rivalry between the imperialists, aggravation of contradictions between them and intensification of the struggle for spheres of influence. Being the most striking manifestation of the internationalisation of capital, the export of capital turns a handful of the richest capitalist countries into usurers with regard to other countries. The export of capital from some advanced capitalist countries to others inevitably intensifies the rivalry between the monopolies of different countries and inflames imperialist contradictions.

International monopolies

The activity of international monopolies is closely associated with the export of capital. Having

won dominating positions in the economic life of the leading countries, the monopolies strive first and foremost for undivided domination on the home market. But that is not all. The scale of production of the monopoly giants is often more than the domestic market can cope with. As these giants expand they do everything in their power to divide the world market. This leads to the rise of international monopolies—agreements between the monopolists of a number of countries on the division of the world market—which constitute a new and higher stage in the world concentration of capital and production and result in the formation of super-monopolies.

International agreements of monopolists are pregnant with violent conflicts. The world market is divided among the international monopolies according to the power they wield. The power of the monopolies of different countries is constantly changing and this leads to a violent struggle for the redivision of the markets. Waged by various groups this struggle is supported by their respective states.

In the period between the two world wars international monopolies played a fatal role in the prepara-

tion of the Second World War by world imperialism. Deals into which the monopolies had entered became the basis for the Western powers' policy of "appeasement" and encouragement of the fascist aggressors which led to the outbreak of the Second World War.

The changed conditions caused by the Second World War resulted in the rise of new forms of international monopolies which soon became widespread. The scientific and technological revolution and the development of big batch and mass production make it necessary to increase the optimum size of enterprises whose construction only the most powerful firms or monopoly associations are able to afford. Transcending national frontiers such associations establish collectively owned enterprises belonging to monopolies of several countries. At the same time the further deepening of the rivalry on the world capitalist market, currency, foreign trade and other transactions of the bourgeois states encourage the monopolies to set up enterprises directly in consumer regions.

As a result, the world has witnessed the spread of such forms of international monopolies as patent agreements, unions to co-ordinate production programmes, installation of equipment and mutual exchange of information and experience, and establishment of joint enterprises owned by monopolists of different countries.

The super-monopolies which we have today are conglomerates which came into being as a result of concentration and monopolisation of the economy, growth of finance capital, migration of capital and the economic division of the world. It can be said that they synthesise the main economic features of imperialism.

Characteristic of the modern methods of the economic division of the capitalist world among monopoly groups is the extensive development of the state-monopoly forms of this division. The state-monopoly forms of the division of markets are special economic blocs established under the hall-mark of integration. The founding of the European Coal and Steel Community was followed by the establishment of Euroatom

and the European Economic Community (Common Market). A rival group of seven countries called the European Free Trade Association (EFTA) was also set up. Since the beginning of 1973 three EFTA members have joined the Common Market thus increasing the number of its participants to nine; the other four EFTA members signed agreements on trade in manufactured goods with the Common Market.

The migration of capital and the growth of international super-monopolies leads to further internationalisation of the economic activity of the advanced capitalist countries.

**Territorial division
of the world and the
struggle for its
redivision**

Under imperialism the largest monopolies divide the world between themselves economically, while the imperialist states complete the territorial

division of the world.

In the 1870s the colonial possessions of the European countries embraced a relatively small part of overseas territories, but in the last two decades of the 19th century the map of the world changed radically. From 1876 to 1914 the so-called great powers seized about 25,000,000 square kilometres, a territory twice the size of the whole of Europe. Almost the whole of Africa, a considerable part of Asia and a large part of Latin America became colonies and semi-colonies of a handful of imperialist countries—Britain, France, the United States, Germany and Japan—and of the smaller predators—Belgium, the Netherlands, Portugal and Spain.

By the beginning of the First World War out of 1,700 million people inhabiting the world about 600 million were living in the colonies and 350 million in the metropolises. The division of the world was completed; free lands were no longer available. It was a matter of redividing the world.

The struggle of the imperialists for the redivision of the already divided world, a distinguishing feature of the monopoly stage of capitalism, ultimately develops into a struggle for world domination. It leads to bloody,

devastating wars. The First World War (1914-1918) was fought for the redivision of the world.

After the First World War the aggressive forces of the international monopolies gave birth to fascism—the open terroristic dictatorship of the most reactionary and aggressive circles of finance capital. The Soviet Union played a decisive role in routing nazi Germany which was striving for world domination.

After the Second World War imperialism for ever lost its domination over the bulk of humanity. The efforts of imperialism to reverse the wheel of history have been thwarted by the determined resistance of the Soviet Union, the entire world socialist community and the forces of peace, national independence and democracy. As a result of the change in the balance of forces on the world scene in favour of socialism and thanks to the Soviet Union's active and purposeful international policy which it is pursuing in keeping with the Peace Programme adopted at the 24th CPSU Congress, there has been a shift from the cold war to international détente in recent years. The realistic policy of mutually advantageous economic and scientific and technological co-operation is steadily coming into its own.

The colonial system

Lenin defined the colonial system of imperialism as the plunder of about a thousand million of the world's population by a small group of great powers. The colonial powers became the undivided masters of countries with a total population that was many times larger than the oppressor-countries. On the eve of the Second World War Britain had a population of 47 million compared to 480 million in her colonies; France had a population of 42 million, while 70 million lived in her colonies, the Netherlands with 9 million had colonies with 70 million and Belgium with a population of eight million possessed colonies whose total population was close to 14 million.

Colonialism doomed many peoples with ancient culture to economic backwardness and extreme poverty. For two centuries India languished under British domi-

nation. The long period of semi-colonial domination was China's lasting curse. The peoples of the Arab East and Africa, Latin America and Southeast Asia were subject to the brutal yoke of colonial exploitation which for a long time fettered their development. Colonialism brought hunger to countries with inexhaustible natural resources and industrious populations.

Colonial exploitation became one of the mainstays of the entire economy of monopoly capital. Imperialism turned the colonies into a well from which it drew enormous wealth in the form of tributes, profits from capital investments and transport, insurance and financial transactions. The colonies and semi-colonies became the most profitable consumer markets, raw materials sources and a field for capital investments.

The importance of colonies as consumer markets and sources of raw materials for the monopolies has grown particularly under the system of unequivalent exchange. Unequivalent exchange means that monopolies regularly sell their commodities to dependent countries at highly inflated prices and purchase their goods at extremely low prices. Monopolies which conducted colonial trade (the purchase of raw materials and the sale of manufactured commodities) amassed profits amounting to several hundred per cent and became the rulers of entire countries disposing of the lives and property of dozens of millions of people.

The colonies were a particularly reliable field for capital investments. The political and economic sway of the monopolies in the colonies guaranteed high profits on invested capital. Colonial rule ensured a complete and undivided monopoly of capital investments, cheap labour power and raw materials. The metropolises began to import from the colonies and dependent countries hundreds of thousands of workers who performed back-breaking work for a pitiful wage.

Imperialism turned the colonies and dependencies into agrarian and raw material appendages of the metropolitan countries. The ruling monopolies tolerated the development of only those branches of production

that ensured deliveries of raw materials and foodstuffs. As a result the economies of the colonies and semi-colonies acquired a one-sided and subordinated nature. Many countries specialised in the production of one or two products all of which were exported: cotton, oil, coffee, rubber, sugar, etc. The one-sided development of agriculture (its single-crop system) made entire countries dependent on the monopolies purchasing raw materials.

In their quest for superprofits the monopolies were compelled to build railways, enterprises for extracting and primary processing of minerals and other raw materials in the colonies and semi-colonies. But at the same time imperialist rule arrested the development of the productive forces in the colonies. Colonialism deprived the oppressed peoples of the essential conditions for their independent economic growth.

In a number of colonies and dependencies the imperialists set up a plantation economy. Plantations are large agricultural enterprises producing cotton, rubber, jute, sisal, coffee and other vegetable raw materials and are based on the slave or semi-slave labour of the totally oppressed native population.

The cheap labour power, the almost gratis labour of the colonial slaves are responsible for the low technical level at industrial enterprises and plantations. As a result of the low level of economic development and the high degree of exploitation the colonial peoples lived in poverty and hunger and were almost on the verge of extinction.

According to UN estimates the per capita income of two-thirds of the world population barely reaches \$41, or one-tenth to one-fifteenth of the incomes in the metropolitan countries. Hundreds of millions of people living in wretched poverty are deprived of medical assistance. In the United States there is one doctor per every 800 people, in France one per 900, in West Germany one per 700, whereas in many of the former colonies there is only one doctor per 40,000-70,000 of the population.

Chapter VIII

IMPERIALISM'S PLACE IN HISTORY. STATE-MONOPOLY CAPITALISM. GENERAL CRISIS OF CAPITALISM

1. Imperialism—a Special Stage of Capitalism

Imperialism, which is a special stage of capitalism, has three distinguishing features. First, imperialism is monopoly capitalism; second, it is parasitic, or decaying capitalism; and, third, it is moribund capitalism. Imperialism is the eve of the socialist revolution. Such is imperialism's historical place in respect to capitalism in general.

Monopoly capitalism Monopoly rule involves a tremendous growth in the socialisation of production. Many thousands of people work at enterprises belonging to the monopolies. The monopolies unite hundreds of enterprises into one. They assume control over consumer markets, raw materials sources and inventions. Big banks control almost the entire money resources of society. But the great advance in the socialisation of production serves the selfish interests of a handful of monopolists. The masses receive no perceptible benefits from the gigantic development of the productive forces. Moreover, their exploitation mounts to extreme limits.

Thus, being monopoly capitalism, imperialism is a new stage in the development of the basic contradiction of capitalism—the contradiction between the social character of production and the private capitalist form of the appropriation of the results of production.

State-monopoly capitalism

The exacerbation of the main contradiction of capitalism leads to the direct intervention of the bourgeois state into the economy in the interests of the financial oligarchy, and monopoly capitalism grows into state-monopoly capitalism.

During upheavals such as wars or crises, the government helps the monopolies surmount the difficulties with which they alone would be unable to cope. In wartime the government builds enterprises which the monopolies do not consider sufficiently profitable to build themselves and then sells them to the monopolies for a song. During crises the state saves the monopolies from bankruptcy by granting them loans and direct financial aid from the treasury.

The bourgeois state takes over control of individual enterprises and even entire branches of production. In some cases it buys from the monopolies obsolescent, unprofitable enterprises and spends huge sums on re-equipping them. This results in the rise of state monopolies alongside private monopolies. The activities of state monopolies are subordinated to the interests of private monopolies. State monopolies supply the latter with electric power, fuel and metal at reduced prices, and state-run railways transport the freight of private monopolies at lower tariffs. The losses are covered by taxes levied on the working people.

Furthering the interests of the monopolies, the bourgeois state carries out measures to regulate the economy by distributing raw material and fuel, providing labour power and financing and crediting production. The state places extremely profitable orders with the biggest monopolies, particularly orders for arms.

State-monopoly capitalism combines the strength of the monopolies and that of the state into a single mechanism for the purpose of enriching the monopolies, suppressing the labour movement and the national liberation struggle, saving the capitalist system and launching aggressive wars.

Speaking up in defence of the monopolies bourgeois ideologists claim that the intervention of the bourgeois state into the economy makes it possible to resolve the contradictions of capitalism. They assert that capitalism has changed its nature, that it has become a "planned", "regulated", "people's" capitalism.

Such assertions are far removed from the actual state of affairs. State-monopoly capitalism does not change the nature of the bourgeois system. As before the aim of production is the amassment of profits through the exploitation of the working class and the broad working masses. The gulf between labour and capital, between the majority of the nation and the monopolies, deepens. Competition becomes more acute and the anarchy of production mounts. This inevitably aggravates the general chaos and disorganisation of the capitalist system as a whole.

State-monopoly capitalism is the highest stage of the socialisation of production under capitalism when the means of production continue to remain in private hands. In this sense Lenin regarded state-monopoly capitalism the complete material preparation for socialism, its eve.

Marxism-Leninism, however, shows that material preconditions in themselves are not enough for a transition from capitalism to socialism. The existence of material prerequisites of socialism indicates that the socialist revolution can and should be urgently effected. In these conditions the political consciousness and cohesion of the masses in their struggle to bridle the monopolies and abolish their power and establish socialism are crucial.

The transition of individual enterprises and even entire branches of the economy into the hands of the bourgeois state—bourgeois nationalisation—is not a socialist measure since on a social scale the means of production remain in the hands of the capitalists. Both at private and state-owned enterprises labour is still exploited by capital. But in certain conditions the working class can turn even bourgeois nationalisation into

a weapon in its struggle against the arbitrary rule of the monopolies. That is why the bourgeoisie frequently opposes nationalisation, while the working class, its party and trade unions support this measure.

Demanding the nationalisation of factories and banks, the working class is directing its efforts to have the management of the nationalised enterprises transferred to the true representatives of the people. In this way the working class strives to isolate the exploiter monopolies and to consolidate the broadest masses of the working people in the struggle to overthrow monopoly rule.

**Parasitism and decay
of capitalism**

Imperialism is parasitic or decaying capitalism. Monopoly rule unavoidably leads to stagnation and decay. Since the monopolies are able to dictate the prices for their output and artificially to maintain them at a high level they are at times afraid of technological innovations which could undermine their monopoly status, or depreciate the enormous sums of money invested in production. In some cases, in individual countries and in separate branches of industry this tendency gains the upper hand for a certain period of time.

Yet it is wrong to think, Lenin warned, that the tendency towards technological stagnation and decay precludes the rapid growth of capitalism. On the whole capitalism develops much more rapidly than it did before though its growth is extremely uneven and is accompanied by stagnation in capital-rich countries.

In conditions of the modern scientific and technological revolution the monopolies use technological improvements as a powerful weapon in their competitive struggle, a development which still further aggravates the contradictions of capitalism.

The decay of capitalism is closely connected with the spread of parasitism. The bulk of the bourgeoisie has fully dissociated itself from the process of production, and the management of enterprises has passed into the hands of hired executives.

There is a growth in the non-productive consumption of people's labour and its fruits and an increase in the number of branches and people employed in rendering personal services to the propertied classes. Militarism, growing at a monstrous rate, consumes an ever greater share of the people's income in the capitalist countries. All imperialist countries are taking part in the arms race, and preparations for aggressive wars are swallowing vast funds.

A striking manifestation of the decay and parasitism of capitalism is the reaction rampant in all spheres of life. Free competition is consistent with bourgeois democracy. Monopoly entails political reaction all along the line. Finance capital strives for uncurbed domination.

The bourgeoisie is bent on depriving the people even of the limited bourgeois democratic rights and freedoms won in the course of a stubborn struggle waged by many generations. In an attempt to mask its rule, the bourgeoisie coins slogans of liberty and equality and at the same time tramples underfoot the laws of its own making. The state of monopoly capital restricts voting rights, falsifies elections and persecutes workers' organisations. The monopolies hire gangs of thugs to take savage reprisals against the activists of the working-class movement and strike leaders.

But the intensification of the reactionary policy of the bourgeoisie tends to stiffen the resistance of the popular masses, headed by the working class. This, Lenin pointed out, deepens the antagonism between imperialism, which rejects democracy, and the masses striving for democracy.

Moribund capitalism Imperialism is moribund capitalism. It is the final stage of capitalism, when the bourgeois system disintegrates under the impact of internal contradictions.

Monopoly rule leads to the utmost insecurity of the broadest masses. The unprecedented growth of exploitation augments the resentment of the working people, and steels its resolve to do away with capitalist slavery.

Mercilessly exploited by imperialist monopolies the colonial peoples rise against the foreign yoke and fight for freedom and independence. At the same time the struggle of the imperialist countries for consumer markets, spheres of profitable capital investments, for raw materials and world domination acquires a particularly vicious nature.

Being moribund capitalism, imperialism is characterised by an unprecedented aggravation of the contradiction between the productive forces and the capitalist relations of production which have long since been fettering society's productive forces. It is this contradiction that causes all conflicts and clashes in the imperialist epoch.

As we have said imperialism is moribund capitalism, but it does not mean that it dies of its own accord. The historically predetermined supercession of capitalism by socialism is a result of the persistent revolutionary struggle of the proletariat which rallies the broad masses of the working people around itself.

Having defined imperialism as moribund capitalism, Lenin showed that imperialism brings the proletariat to the threshold of socialist revolution. The bourgeois system has exhausted its historically progressive role and has become a monstrous obstacle on the road of society's further development.

The law of uneven development

The conditions in which the working class struggles for socialism change to a large extent in the monopoly stage of capitalism. This change is a result of the operation of the law of uneven development of the capitalist countries in the imperialist period.

Private ownership of the means of production and the anarchy of production prevent an even development of individual enterprises, branches and even of different countries. Some countries outstrip others in their development.

The uneven development of separate countries intensifies sharply in the imperialist period. The unprecedented advance in technology enables the young coun-

tries rapidly to catch up with and even outstrip their older rivals. At the same time monopoly rule is marked by a tendency towards parasitism, decay and technological stagnation. This explains the rapid development of some countries and the retarded growth of others. The export of capital is yet another factor which promotes uneven development.

The division of the world into spheres of influence ruled by imperialist groups and powers is complete. There are no "free" territories left. The capitalists divide the world, as Lenin said, "according to capital", "according to power". But the power of individual countries changes depending on the level of their economic and political development.

The changed relation of forces between the powers runs up against the old distribution of colonies and spheres of influence. So long as imperialism held undivided sway throughout the world, the struggle for the redivision of the already divided world invariably led to bloody, devastating wars between imperialist groups.

The uneven economic development of the capitalist countries in the imperialist epoch caused their political development to be uneven, too. The relation between the class forces and the conditions for the struggle of the working class are by no means the same in all countries, and the same applies to the development of the political awareness and revolutionary determination of the proletariat and its relations with the mass of the peasants and other working sections of the population.

The unevenness of the economic and political development of the capitalist countries in the imperialist period leads to the uneven maturing of the economic and political conditions for the socialist revolution.

**Possibility of socialism
triumphing first in a
single country**

Marxism-Leninism characterises the period of imperialism's undivided rule of the world as the epoch of imperialism, wars and proletarian revolutions. Creatively developing Marxism, Lenin showed that the revolutionary collapse

of capitalism does not take place at one and the same time throughout the world. Because of the uneven economic and political development of capitalism in the imperialist period, the socialist revolution is accomplished in different countries at different times.

First socialism triumphs in one capitalist country, and then other countries gradually fall away from capitalism and take to the socialist road.

Lenin's teaching that the socialist revolution can triumph in individual countries has opened up new revolutionary vistas to the proletariat and has inspired it to storm bourgeois positions in their countries. It became a manual of action in the greatest revolution ever—the Great October Socialist Revolution in Russia. The break-away from capitalism of a number of countries and their first steps along the socialist path after the Second World War brilliantly confirmed Lenin's theory of the socialist revolution.

2. The General Crisis of Capitalism

The rise of the general crisis of capitalism

The revolutionary transition from capitalism to socialism is a natural result of social development. This transition inevitably involves a lengthy period of struggle between capitalism and socialism. It is the period of the general crisis of capitalism.

The general crisis of capitalism was ushered in by the First World War and the Great October Socialist Revolution. The socialist revolution in Russia made the first breach in the imperialist front. It shook the foundations of the world capitalist system and threatened its further existence, and marked the beginning of the world socialist revolution.

Further historical development led to the collapse of capitalism in a large group of other countries and their transition to the socialist road. Socialism transcended the borders of a single country and became a world system.

Division of the world
into two systems and
the struggle
between them

Russia's departure from capitalism meant that the capitalist system ceased to be the sole worldwide economic system. The un-

divided rule of the capitalist system was relegated to history. A socialist system emerged and began to develop. The world became divided into two systems.

Socialism and capitalism are not only different but also opposing social systems. The contradiction between them is mankind's main contradiction today. The struggle between the two systems—moribund capitalism and triumphant socialism—has become a decisive factor in world history. The simultaneous existence of the two systems inevitably leads to competition between them which embraces the economy, politics, culture and all other spheres of social life.

For almost three decades the Soviet Union was building socialism in a capitalist encirclement. The rout of the nazi aggressors in the Second World War promoted the departure of a number of European and Asian countries from the capitalist system and the victory of the socialist revolution in them made socialism a world system. Today there are two world systems—the socialist and the capitalist.

The world community of socialist countries is a mighty stronghold of the world's progressive forces. No power on earth can restore capitalism in the countries that have broken away from the capitalist system.

The development of socialism into a world system has convincingly proved capitalism's inevitable historical doom. A new stage set in the struggle between the two social systems, a struggle which is the principal feature of the general crisis of capitalism. The main contradiction of the modern epoch, namely, the contradiction between developing socialism and dying capitalism, has reached a higher stage.

Competition between the socialist and capitalist systems has assumed a much broader scale; it has become a competition between two world sys-

tems. The socialist system has proved its superiority over the capitalist system in the course of an entire historical period.

The disintegration of the colonial system

The break-up of the colonial system is caused by the undermining of the positions of imperialism in colonies and dependencies, the winning of independence by the enslaved peoples of the less developed countries and the eviction of the imperialists from these countries.

The crisis of the colonial system of imperialism broke out under the direct impact of the Great October Socialist Revolution in Russia.

The rise of socialism marked the advent of the era of liberation of the oppressed peoples. Having weakened world capitalism the October Revolution inflicted a crushing blow at the imperialist system. It hit at the rear of imperialism and undermined its rule in the colonial world. Imperialist rule in the colonies, formerly more or less stable, came to an end. The struggle of the oppressed peoples against colonialism acquired an unheard-of scale.

After the rout of the nazi aggressors in the Second World War and the formation of the world socialist system the national liberation movement of the peoples enslaved by imperialism gained considerably in strength. The fresh, powerful upsurge of the national liberation struggle in the colonies and dependencies resulted in the break-up of the colonial system of imperialism. In the post-war period more than 50 per cent of the world's population has cast off the chains of colonial and semi-colonial slavery. Dozens of sovereign states arose on the ruins of the colonial empires. The overwhelming majority of Asian and African peoples smashed the yoke of colonialism.

The people's revolution in Cuba breached the US colonial front in Latin America. Having upheld their independence the people of Cuba embarked on the road of socialist development inspiring all Latin American peoples to struggle against the oppression of US

monopoly capital, for freedom and independence.

As Lenin had predicted, world history entered a new period in which the peoples who for centuries had been prevented by the colonialists from advancing along the high road of social progress began to participate actively in shaping the future of the whole world.

Struggle to overcome the aftermaths of colonialism The liquidation of colonialism is the result of the long and stubborn struggle of the peoples enslaved by imperialism. They have the powerful support of socialist countries and all progressive forces. The conquest of political independence sets the peoples who had shattered the yoke of colonialism imposing tasks. To consolidate their political independence they must achieve economic independence from foreign capital, wipe out the dire heritage of decades, and, in some cases, of centuries of colonial slavery: extreme technological and economic backwardness, outmoded forms of social life artificially fostered by the colonialists, an extremely low level of labour productivity and national income, unimaginable poverty of the population which was doomed to hunger and extinction.

The peoples who have freed themselves from the chains of colonialism have to choose between the capitalist path of development, which spells greater social inequality, suffering and privations and perpetuation of poverty and backwardness, and the socialist path which leads to economic and cultural upsurge, genuine freedom and happiness.

Practice has shown the peoples of the newly free countries that only the non-capitalist path of development leading to socialism will bring them out of their age-old backwardness and poverty, abolish exploitation and improve their conditions of life. In a number of countries far-reaching reforms are being introduced to abolish the domination of foreign monopolies, develop the state sector in the economy and raise living standards.

The imperialists are endeavouring to frustrate the national and social revival of the Asian, African and Latin American peoples. Combining violence with deceit the imperialists resort to new forms of colonialism in an effort to enslave the peoples of the economically less developed countries by inveigling them in aggressive military blocs and foisting "aid" on exorbitant terms. In this way they hope to retain their old positions and seize new ones.

To gain their ends the imperialists take advantage of the involved social and class situation in the newly free countries, their economic difficulties and the domination of foreign monopolies that still hold key positions in many of them. The newly free countries have become the arena of struggle between the progressive patriotic forces, on the one hand, and reactionary circles which overtly or covertly act in collusion with the imperialists, on the other. The current relation of forces on the international scene and the support on the part of the world socialist system help the peoples of the former colonies to frustrate the plans and the intrigues of the colonial powers.

The main content of the modern epoch

The main content of the modern epoch is the transition from capitalism to socialism. The socialist world is expanding and the capitalist world is shrinking and the laws of imperialism are no longer supreme throughout the world. New laws of social development inherent in the socialist system have come to the fore and are exerting increasing influence on the course of social development.

Our epoch, whose main content is the transition from capitalism to socialism, says the Programme of the Communist Party of the Soviet Union, is an epoch of struggle between the two opposing social systems, an epoch of socialist and national liberation revolutions, of the breakdown of imperialism and the abolition of the colonial system, an epoch of the transition of more and more peoples to the socialist path, of the triumph of socialism and communism on a world scale.

Thus, three basic processes determine the modern epoch of world development: first, the emergence and the consolidation of the new system in the countries where the socialist revolution has triumphed; second, the collapse of colonialism under the impact of the national liberation movement of the peoples oppressed by imperialism; and, third, the exacerbation of all internal and external contradictions in capitalist countries and the maturing of prerequisites for the triumph of the socialist revolution in them.

The epoch of the general crisis of capitalism is the epoch of the struggle between the socialist and capitalist systems. The forces of socialism are steadily growing. Imperialism has forever lost its domination over the bulk of the world population and its sphere of influence is steadily diminishing. The relation of forces between the socialist and capitalist systems is such that capitalism can no longer calculate on getting the upper hand over socialism. In a range of key scientific and technological fields socialism has already overtaken capitalism with the result that peace-loving nations now have adequate material means to curb the forces of imperialism and aggression.

Since the outbreak of the general crisis of capitalism the political map of the world has changed radically. In 1919 the socialist world embraced 16 per cent of the earth's territory and 7.8 per cent of its population. By mid-1971 the socialist countries occupied 25.9 per cent of the world's territory and embraced 32.9 per cent of its population. In 1919 the major imperialist powers (the United States, Britain, Germany, later the FRG, France, Japan and Italy) with their colonies covered 44.4 per cent of the world's area and accounted for 48.1 per cent of its population. By mid-1971 advanced capitalist countries accounted for 8.6 per cent of the territory of the world and for 4.9 per cent of its population. In 1919 all colonies, semi-colonies and dominions covered 72 per cent of the territory of the world with 69.4 per cent of its population. But in 1971 the developing countries accounted for 58.7 per cent

of the world's area and 47 per cent of its population.

A Document adopted at the International Meeting of Communist and Workers' Parties held in Moscow in June 1969 defines the contemporary stage of world development as follows:

"Powerful revolutionary processes are gathering momentum throughout the world. Three mighty forces of our time—the world socialist system, the international working-class and the national liberation movement—are coming together in the struggle against imperialism. The present phase is characterised by growing possibilities for a further advance of the revolutionary and progressive forces. At the same time, the dangers brought about by imperialism, by its policy of aggression, are growing. Imperialism, whose general crisis is deepening, continues to oppress many peoples and remains a constant threat to peace and social progress."

Capitalism has become a monstrous obstacle to human development. Ours is an age of rocketing productive forces and unprecedented development of science and technology. And if it has not yet put an end to the poverty of hundreds of millions of people nor created an abundance of material and spiritual wealth for the whole population of our planet, capitalism alone is to blame.

"The growing conflict between productive forces and production relations," points out the Programme of the CPSU, "imperatively demands that mankind should break the decayed capitalist shell, release the powerful productive forces created by man and use them for the good of society as a whole."

This task is being solved by the socialist revolution.

SOCIALISM AND COMMUNISM

Chapter IX

THE PERIOD OF TRANSITION FROM CAPITALISM TO SOCIALISM

1. The Need for a Transition Period

Emergence of the
socialist mode of
production

As has been shown above, capitalism emerges spontaneously and is not built according to a conscious plan. Slavery and feudalism, the preceding exploiting systems, also emerged spontaneously.

In contrast to capitalism and all other preceding forms of society, socialism cannot arise spontaneously. It is built by the people under the guidance of the working class led by the Marxist-Leninist Party.

Differing fundamentally from all other revolutions, the socialist revolution is the most radical revolutionary upheaval in human history.

All previous revolutions replaced one form of private ownership of the means of production by another such form. The socialist revolution abolishes private ownership of the means of production and makes them socialist property.

All previous revolutions substituted one form of exploitation for another. The socialist revolution abolishes all exploitation of man by man and does away with the exploiting classes.

No preceding revolution had ever abolished anarchy of production. Only the socialist revolution eradicates

anarchy of production and leads to the transition to the planned organisation of social production.

Socialism cannot be built so long as the bourgeoisie remains in power. The building of socialism begins only after state power passes from the hands of the bourgeoisie into the hands of the working class.

A revolutionary transition period is essential to pave the way for the socialist transformation of society. In different countries this period may have specific features of its own and may vary in duration. But always and everywhere the transition from capitalism to socialism begins with the triumph of the socialist revolution.

The replacement of capitalism by socialism is subject to the objective laws of social development. At the same time this replacement is effected through the self-sacrificing struggle and creative labour of the masses led by the Marxist-Leninist Party. The replacement of capitalism by socialism means a radical reorganisation of all spheres of social activity, ranging from the conditions of material production, which is the basis of the existence of human society, to the highest spheres of human consciousness, science and culture.

Such a radical reorganisation of the intricate social organism can take place only on the basis of the creative application of Marxist-Leninist theory which indicates the way towards the fulfilment of the great tasks of the socialist revolution. In turn, in the process of socialist transformation of society the principles of Marxism-Leninism are not only verified, but also developed as a result of the generalisation of the new historical experience.

Role of the dictatorship of the proletariat in the establishment of a socialist economy The socialist revolution may take a variety of forms. But whatever its form it invariably leads to the transfer of state power from the bourgeois minority to the working class and the establishment of the dictatorship of the proletariat that leads the bulk of the population.

The dictatorship of the working class, led by the Marxist-Leninist Party, is decisive for the socialist transformation of society. It heads the working masses, organises their struggle against the forces and traditions of the old society. Crushing the resistance of the exploiters, defending the country against hostile actions from without, the dictatorship of the proletariat organises and heads the building of a new, socialist economy. In the course of this economic upbuilding the old bourgeois relations of production are destroyed and new, socialist relations of production are created. At the same time the new productive forces essential for building and developing the socialist mode of production are created.

The building of socialist economy presupposes the introduction of fundamental socio-economic reforms, including the establishment of the social ownership of the basic means of production, the abolition of exploitation of man by man, the replacement of anarchical production, conducted solely for the purpose of amassing capitalist profits, by planned production aimed at satisfying the requirements of society as a whole and all its members, in particular.

In the course of socialist reorganisation of society the broadest sections of the employed population come to realise that their vital interests coincide with those of the working class. This leads to the formation of an indestructible alliance of the working class and the non-proletarian working masses, primarily the peasants, in the interests of building socialism and its further development towards communism. The alliance of the working class and peasantry is the supreme principle of the dictatorship of the proletariat.

The leading role of
the Communist Party
in the building of
socialism and
communism

The dictatorship of the proletariat is essential for the building of socialism, and the leading role of the Communist Party is an earnest of its success.

The Communist Party is the vanguard of the working class and all working people. It is armed with the

advanced revolutionary theory of Marxism-Leninism which opens the laws of social development, particularly the laws of the building of socialism and communism. Leadership by the Communist Party guarantees that the dictatorship of the proletariat follows a correct, scientifically based course in fulfilling the complex tasks of socialist construction both in the transition period and in the subsequent development of socialist society along the road to communism.

Consistently pursuing a class-orientated, proletarian policy, the Communist Party is closely linked with non-Party popular masses. Leadership by the Communist Party ensures active participation of the broad masses of the working people in the organisation of socialist economy.

The strength of the Communist Party lies in its cohesion and its dedication to the cause of the working class, the cause of socialism. Leadership by the Communist Party is essential to secure unity of will and action in the struggle against the enemies of socialism and in the building of socialist society.

The experience of socialist construction in the Soviet Union and other countries has fully confirmed the Marxist-Leninist teaching about the decisive role of the Communist Party in the establishment and development of socialist society. Events have shown that only a Party faithful to the revolutionary ideas of Marxism-Leninism can organise the whole people and lead them towards the victory of socialism.

Socio-economic sectors and classes during the transition period

Embarking on the socialist transformation of society, the dictatorship of the proletariat first and foremost socialises the basic means of production owned by capitalists and landowners. Taking over large-scale industry and transport, banks and foreign trade, it assumes command positions in the economy. This inaugurates the socialist sector which plays a leading role in the economy of the tran-

sition period. But for a certain period it is not the sole sector and not even the predominant one.

Lenin indicated that in the first years of Soviet power there were five socio-economic sectors in the USSR economy:

- 1) the patriarchal peasant economy;
- 2) small-scale commodity production;
- 3) private capitalism;
- 4) state capitalism;
- 5) socialism.

The patriarchal peasant economy was in the main a natural economy producing primarily for personal consumption.

Small-scale commodity production for the most part embraced the households of the middle peasants who produced the bulk of the marketable grain. This sector also included handicraftsmen who did not employ wage labour.

Private capitalism was represented by the most numerous of the exploiting classes, the kulaks (rich peasants), the owners of small industrial enterprises employing hired labour, and merchants.

State capitalism existed primarily in the form of concessions granted to foreign capitalists, and of enterprises, forest lots and land leased to foreigners. State capitalism played only a minor role in the economy of the Soviet Union.

The socialist sector included factories, transport facilities, means of communications and banks that had passed into the hands of the state, state farms, and also collective farms which for several years were only small islands in the sea of individual peasant farms.

In other socialist countries the economy of the transition period is also multi-sectoral. The number of sectors and the importance of each depends on the level of economic development and on the historical features of a given country.

The principal forms of social economy in the transition period are socialism, small-scale commodity

production and capitalism. To them correspond the main class forces—the working class, the peasantry and the bourgeoisie. Small-scale commodity production is a hotbed of capitalism that constantly engenders capitalist elements.

The transition period from capitalism to socialism is one of struggle between the vanquished, though not yet destroyed capitalism and the nascent, but still weak socialism. It is a life and death struggle, for it decides “who will beat whom”.

Main tasks of the transition period

After the victory of the revolution and the take-over of command heights, the socialist state

is faced with tremendous tasks. Its principal concern is to transform the multi-sectoral economy of the transition period into the socialist system of economy.

The economic policy of the proletarian dictatorship is designed to solve these tasks. It embraces the sum total of economic measures effected by the socialist state which acts in keeping with the economic laws of socialism.

Lenin furnished a deep scientific basis for the policy of the proletarian dictatorship for the entire period of transition from capitalism to socialism. His plan for the building of socialist society consists of three basic components, namely, industrialisation of the country, co-operation of agriculture and the cultural revolution. Once they are carried out these measures create the material and technical basis of socialism and result in the complete victory of socialist production relations in the whole economy.

All countries embarking on the road to socialism have to tackle these three main tasks of the transition period. The magnitude of each task and the concrete methods of fulfilling it depend on historical features and the level of development of each country concerned.

2. Lenin's Plan for Building Socialism and Its Implementation

Socialist
industrialisation
in the Soviet Union

On the eve of the October Revolution Lenin set the task first of winning political power, and

then, of catching up with and overtaking the advanced capitalist countries economically.

To build socialism in the USSR it was above all essential to do away with its technical and economic backwardness by establishing a powerful socialist industry. Lenin emphasised that only a large-scale machine industry which could also reorganise agriculture could be the material basis of socialism.

The development of the productive forces involves the expansion of the productive apparatus of all branches of the economy and its improvement through the introduction of advanced technology. Since sophisticated machines, lathes, tools, instruments are manufactured by the engineering industry it is justly regarded as the backbone of industrialisation.

The manufacture of machinery and equipment depends on the availability of metal, fuel, electric power, chemical products and building materials. This makes metallurgy, fuel extraction (coal, oil and gas), and the chemical, power and building materials industries (cement, reinforced concrete, etc.) crucial. All these branches plus the engineering industry make up a country's heavy industry whose growth serves as a basis for the development of agriculture, the steady increase in the output of consumer goods and the consistent rise in living standards.

Industrialisation is essential to ensure the economic independence of a country and to strengthen her defence potential.

The policy of socialist industrialisation of the country was the basis of the general line of the Communist Party aimed at building socialist society in the USSR.

In view of the domestic and international situation it was absolutely necessary to carry out the socialist

industrialisation of the USSR with the utmost speed. The small-peasant economy prevailing in the country at the time was a basis more suitable for capitalism than communism. Therefore, to prevent a return to capitalism it was necessary to place the entire economy, including agriculture, on the basis of advanced technology by creating large-scale machine production. High rates of industrialisation would not only assure the triumph of socialism in the USSR, but would also enable the country to preserve her independence.

The industrialisation of a vast country in an historically short space of time involved tremendous difficulties and could be achieved at the cost of great effort and sacrifice. This task was fulfilled because the socialist revolution had eliminated all obstacles which the capitalist relations of production had put up in the way of the development of the productive forces and opened broad prospects for their rapid growth. The overthrow of capitalism freed inexhaustible springs of people's creative activity. Armed with the Leninist plan of building socialism, the Communist Party led the Soviet people into a decisive attack on the age-old technical and economic backwardness of the country. Due to the historical advantages of the socialist system, a higher social system than capitalism, the USSR was able to achieve such rates of growth of industry and the economy as a whole that capitalism had never been able to attain.

Thanks to these rates the Soviet Union traversed a road which the capitalist countries took several times longer to cover. In the sphere of industrial production the Soviet Union attained as much in 12-13 years as the capitalist world as a whole achieved in 80 years. As regards the most rapidly developing capitalist countries—the USA and Germany—it took them not less than 50 years.

The Soviet Union required only three five-year plan periods (1929-1941)—the last five-year plan was cut short by the Second World War—to build up a large-

scale modern industry and become a mighty industrial power. It attained first place in Europe and second in the world (after the United States) in industrial output. The USSR became economically independent of capitalist countries. The defence potential of the USSR had grown immeasurably. The industrialisation of the country was a major achievement of the working class and the whole people who, sparing no effort, consciously accepted privations to pull the country out of economic backwardness.

**Socialist reorganisation
of agriculture**

After winning power the working class has to solve the eternal peasant question.

The peasantry is not homogeneous: at one pole there are the poor peasants, the natural allies of the working class, at the other, the rural bourgeoisie, the kulaks. The bulk of the peasantry are the middle peasants. Following its victory over the bourgeoisie the working class policy with regard to the middle peasants must be one of distinguishing two motives in the mind of a peasant who is both a worker and the owner of the land he tills. Lenin wrote that this distinction was the very essence of socialism. The task of the working class is to draw the mass of the working peasantry into socialist construction by uniting small individual farms into large-scale socialist enterprises.

Lenin drew up the programme of socialist transformation of agriculture based on the establishment of co-operatives. The main conditions for this transformation are leadership of the working class and the development of large-scale industry capable of supplying agriculture with machinery. With the establishment of the power of the working class the peasants are gradually taught the habits of collective labour, first through the organisation of supply and marketing co-operatives. As soon as all the conditions have been created a transition is effected from scattered individual farming to large-scale socialist producer co-operatives—collective farms.

Lenin wrote that the transfer of the peasants from

individual to collective farming should be voluntary, that they should first become convinced of the advantages of large-scale social production over small individual farming. The leading and organisational role of the Communist Party and the socialist state combined with strict observance of the principle of voluntariness in uniting the peasants in collective farms is an earnest of success of the socialist reorganisation of agriculture.

In the Soviet Union the first major successes of socialist industrialisation paved the way for the transition to large-scale agricultural production. The countryside began to receive tractors, modern farming machines and other equipment. A network of state farms and machine-and-tractor stations was set up. The state farms convincingly demonstrated the advantages of large-scale mechanised production in agriculture. Run by the state the machine-and-tractor stations were an important means of collectivising agriculture and assisting the collective farms.

Collectivisation of agriculture permanently freed the countryside from kulak domination, from class stratification, ruin and poverty. The establishment of collective farms did away with the division into poor and middle peasants. The countryside stopped ejecting hundreds of thousands of unfortunate people who were forced to seek work in towns. This blocked one of the main channels swelling unemployment which by 1931 had been wiped out in the Soviet Union.

The victory of socialism in the countryside eradicates the age-old antithesis between town and country and creates conditions for the further rapprochement between industry and agriculture.

A most difficult task of the socialist revolution after the seizure of power by the working class is that of reorganising small scattered peasant farming along socialist lines. The fulfilment of this task is of the utmost importance for all countries building socialism. The implementation of Lenin's co-operative plan fully resolves the eternal peasant question.

Cultural revolution

Apart from the creation of large-scale machine industry and large-scale socialist agricultural production, the socialist transformation of society involves a far-reaching revolution in culture.

A cultural upsurge among the broad masses of the population is essential for the building of socialism. Large-scale socialist production based on the latest achievements in science and engineering must have skilled workers, engineers and technicians. The rapid growth of industry and agriculture and constant technological progress in all branches of the economy are inconceivable without a high level of scientific development.

It is the cultural revolution that creates these essential prerequisites for the flourishing of the socialist economy. The cultural revolution is crucial for the economy because it changes the people, society's main productive force. The consummation of the cultural revolution, the rise in the general educational, cultural and technical level of the people creates favourable conditions for drawing all working people into active participation in managing social life.

The socialist transformation of society establishes the dominance of Marxism-Leninism, the only scientific philosophy and the most advanced ideology in the world. This ideology offers unlimited scope to scientific achievements, the probing of the secrets of nature and the mastering of its inexhaustible forces. Socialism creates conditions for the flourishing of science and allots it an increasing role in social life. All the peoples of the socialist countries take part in developing the new culture that is national in form and socialist in content.

Socialism gives the working masses material security, ensures a steady rise in their living standard and a shorter working day. As a result of the cultural revolution millions of people, formerly deprived of the opportunity to study, become active creators of culture. All this opens up unprecedented possibilities for the

all-round development of society's spiritual life, the flourishing of science, technology, the arts and the efflorescence of the talents and abilities inherent in the people.

Thus, the socialist transformation of society eliminates the antithesis between physical and mental labour. Socialism creates the essential conditions for the steady eradication of distinctions between them.

Victory of the socialist system of economy.	Socialist industrialisation of the country, collectivisation of agriculture and the cultural revolution radically change the multi-
The building of a developed socialist society	sectoral economy of the transition period.

The rapid growth of the productive forces leads to the creation of the material and technical basis of socialism. At the same time fundamental changes take place in the relations of production. The socialist sector expands and strengthens. The small-scale commodity sector is reorganised along socialist lines. Capitalist elements are gradually ousted and then eliminated altogether. These processes result in the complete victory of socialism in the entire economy. Having ensured the victory of socialism in all spheres of the economy in the second half of the 1930s, the Soviet people went ahead and built a developed socialist society. This made it possible to embark on the great task set by the CPSU, that of creating the material and technical basis of communism.

General laws and features of the building of socialist economy in different countries	Judging by the experience of the Soviet Union and other socialist countries it is clear that the building of socialist economy
--	--

is subject to general laws that are common to all countries and reflect the principal processes characterising the establishment of socialist social relations. At the same time the socialist revolution and socialist construction in individual countries have certain specific features arising from the concrete natural and socio-historical conditions in each country. The promotion of these features to the forefront, which in

effect amounts to a rejection of or disregard for the general laws of socialist construction, is a violation of the basic principles of Marxism-Leninism.

The historical experience of the post-war period has proved that the basic laws of socialist revolution are common to all countries although the struggle for socialism in each country may have certain specific features arising from national and historical conditions. The beacon for all nations engaged in the socialist reorganisation of society is the experience of the Soviet Union, the first country to have charted the high-road to socialism.

The international significance of the basic and principal experience of the Great October Socialist Revolution and the building of socialism in the USSR has been conclusively manifested in the process of socialist construction in a large group of countries that had broken away from capitalism after the Second World War. Whatever the national features of the struggle for socialism in individual countries, they do not nullify the fundamental laws of socialist revolution. Counterposition of these fundamental laws with "new models" of socialism signifies a departure from the basic paths of socialist transformation of society whose correctness have been verified both by the experience of the Soviet Union and that of the socialist countries; it runs counter to the principles of proletarian internationalism and affects the interests of socialism in a given country and those of the entire world socialist system.

"Experience shows," Leonid Brezhnev pointed out, "that *the road of different countries to socialism* is marked by such major common milestones as the socialist revolution in one form or another, including the smashing and replacement of the state machine of the exploiters; the establishment of one or another form of the dictatorship of the proletariat in alliance with other strata of the working people, and the abolition of the exploiting classes; the socialisation of the means of production and the consolidation of socialist rela-

tions of production and other social relations in town and countryside; the bringing of cultural values within the reach of the masses of the working people, i.e., the cultural revolution in Lenin's meaning of the word.

"On the other hand, when we speak of the main features of *socialism, that has been built*, this question is likewise clear to Communists. It is clear to us today not only from the theoretical propositions of Marxist teaching but also from the experience of development gained by socialist countries. What are these features? They are the power of the working people with the vanguard role exercised by the working class and the leadership of social development provided by the Marxist-Leninist Party; public ownership of the means of production and, on its basis, the planned development of the national economy on the highest technological level for the benefit of the whole people; the implementation of the principle 'from each according to his ability, to each according to his work'; the education of the whole people in the spirit of the ideology of scientific communism, in the spirit of friendship with the peoples of the fraternal socialist countries and the working people of the whole world; and, lastly, a foreign policy founded on the principles of proletarian, socialist internationalism.

"All these general, basic elements of socialism are of decisive significance."

The Chinese leaders adopted their own platform which was incompatible with Leninism inasmuch as it expressed their resolve to struggle against socialism and split the communist and the entire anti-imperialist movement. In these circumstances, as the 24th CPSU Congress rightly pointed out in its Resolution, the only correct stand is that of consistently upholding the principles of Marxism-Leninism, enhancing the cohesion of the world communist movement and safeguarding the interests of socialism.

Chapter X

SOCIALIST ECONOMIC SYSTEM

1. Public Ownership of the Means of Production. The Nature of Labour Under Socialism

Dominance of public, socialist property Every mode of production has a specific form of ownership of the means of production. Public ownership of the means of production rules undividedly under socialism.

Public ownership of the means of production becomes dominant as a result of the abolition of the private ownership of the means of production. It emerges in two different ways. First, the socialist state expropriates the expropriators as envisaged by the founders of scientific communism. It confiscates the land of the landowners, the factories, railways and banks of the capitalists and makes them the property of the whole people. Second, the voluntary union of peasant farms results in the rise of the socialist property of agricultural producer collectives—collective farms.

Since public property emerges in two different ways it also has two corresponding forms.

Two forms of socialist property As is evidenced by historical experience of the Soviet Union and other socialist countries, public, socialist property has two forms. First, there is state property, belonging to the whole people, and second, there is the co-operative and collective-farm property. The difference between them is above all

in the degree of their maturity, the extent to which the means of production are socialised.

State property is the property of the whole people as represented by the socialist state. Co-operative and collective-farm property is the property of groups of working people. In state enterprises all the means of production are socialised. In collective farms only the main, decisive means of production are socialised, while some (livestock to the extent set down in the Rules of the Agricultural Artel, the implements with which the collective farmers cultivate their subsidiary plots) are the personal property of the collective farmers.

State property, the highest form of socialist property, plays the leading role in the building of socialism and communism. Co-operative and collective-farm property can emerge only when state property has become predominant. Both forms of socialist social property develop in close interaction.

Two types of socialist enterprises

Since there are two forms of socialist property there are two corresponding types of socialist enterprises. These are, first, state enterprises: factories, mines, railways, state farms, trading organisations, banks and public utilities and, secondly, enterprises which are co-operative and collective-farm property: collective farms, producer artels and consumer co-operatives, the chief of them being the collective farms.

Collective farms and state enterprises belong to the same type of property since both are socialist forms of the economy. Yet, there are certain distinctions between the two. These are distinctions as regards the management of enterprises, the disposal of the finished product and how the workers and collective farmers receive their income.

A manager of a state enterprise is appointed by the state. He is vested with authority by the state and is responsible to it for the fulfilment of plans. In the collective farm the supreme managing body is the general meeting of the collective farmers which elects the board and the chairman of the collective farm.

The output of state enterprises belongs fully to the state. It is sold to state organisations at prices fixed by the state. The output of a collective farm is the property of the collective farm that produces it. Having fulfilled its sales obligations to the state, the collective farm disposes of the rest of the output as it thinks fit, setting up funds in keeping with the decisions of the general meeting of the collective farmers, marketing part of it and so forth.

Workers and collective farmers are paid according to the quantity and quality of their labour. But while factory and office workers are paid out of the state wage fund, the collective farmers are remunerated out of their farm's income. As distinct from the worker, the collective farmer gets his incomes not only in money but also in kind—part of the output of the collective farm.

Whatever the distinctions between state enterprises and collective farms, both are socialist enterprises and that fact is of decisive importance. The means of production are socialised in both, thus precluding any exploitation of man by man. Labour is collective and is remunerated depending on its quantity and quality. The aim of production is to satisfy the requirements of society.

**Personal property
under socialism**

In socialist society both the means of production and the product of social labour are fully socialised.

But part of the social product is distributed among members of society in the form of consumer articles and becomes the personal property of individuals.

Socialism does not belittle the individual nor his personal requirements, and does not equalise people in poverty. On the contrary, for the first time in history it creates conditions for the all-round satisfaction of the working people's requirements. Collective labour and public ownership of the means of production promote living standards and foster the culture that has been placed within the reach of all the people.

While socialist society safeguards and defends the people's earned incomes, it does not tolerate people who seek to live at the expense of other people's labour.

**Class structure of
socialist society**

As a result of the elimination of the exploiting classes, society consists of two friendly classes—the working class and the peasantry. The intelligentsia in a socialist society works hand in hand with the working class and the peasants. At the same time the character of the working class, the peasantry and the intelligentsia has changed fundamentally.

Under socialism the working class is no longer deprived of the means of production. It is a class which plays the leading role in society. The life and labour of the peasants are no longer based on petty individual farming and primitive equipment, but on collective labour, collective ownership of the means of production and modern machinery and implements.

The fundamental distinction between the working class and the peasantry has been eradicated since the socialist economy has become the means of subsistence for both classes. The common nature of the two forms of socialist property draws the working class and the collective farmers together, strengthens their alliance and cements their friendship.

A radical change has also taken place in the composition of the intelligentsia and in the character of its activities. Its vast majority are people of working-class and peasant origin. The socialist intelligentsia is closely linked with the people and serves the cause of socialism. Together with the workers and peasants it actively participates in the building of socialism and communism.

The distinctions between the working class and the peasantry and also those between these two classes and the intelligentsia tend to disappear. Their working conditions gradually develop similar features. The community of the basic interests of the workers, peasants and the intelligentsia resulted in the establishment of an

inviolable socio-political and ideological unity of the people.

Socialism effectuates genuine democracy. Socialist democratism guarantees both political freedoms and social rights: freedom of speech, the press and assembly, including the holding of mass meetings, the right to elect and be elected, the right to work, rest and leisure, education, and maintenance in old age and also in the case of sickness or disability. Socialism ensures the equality of rights of citizens whatever their nationality or race, it accords women all rights on an equal footing with men in all spheres of economic, government and cultural activity, and guarantees genuine freedom of the individual. The supreme manifestation of this freedom is the emancipation of man from exploitation which guarantees social justness.

Socialist relations of production and their role in the development of the productive forces

Public ownership of the means of production gives rise to a new type of production relations which are superior to those of capitalism. These are relations of

equal and free members of society, relations of mutual assistance and friendly competition in joint labour.

By establishing public ownership of the means of production, the socialist revolution removes the contradiction between the productive forces and the relations of production that exists under capitalism. Socialist relations of production afford the utmost scope for the development of the productive forces. Above all this applies to the main productive force of society—to the working masses which have every possibility of promoting their creative activity and fostering their energy, talents and abilities. The emulation which embraces a vast number of people is a mighty motive force. The great force of example leads to the rapid spread of advanced experience and helps those lagging behind to catch up with the foremost workers.

Socialist relations of production make it possible for the first time in history to use all the productive resources of society, both human and material in the most

effective way. Characteristic of the socialist system of economy are the steady and rapid growth of production and rational distribution of the productive forces.

Compared with capitalism socialism ensures a more rapid development of the productive forces. The production growth rates in the Soviet Union and in the other countries of the socialist system exceed those in capitalist countries.

Under socialism social progress also takes place through the rise, development and solution of contradictions. But this development through contradictions does not have a destructive impact on the productive forces. On the contrary it results in the rapid and powerful growth of these forces.

Lenin pointed out that contradictions remain under communism but antagonisms disappear. An antagonism is an irreconcilable contradiction, one that can be solved only through revolution. Such is the antagonism between the productive forces and relations of production in bourgeois society, which is destroyed only as a result of the revolutionary elimination of capitalist relations of production. Such is the antagonism between the bourgeoisie and the proletariat which disappears only as a result of a revolution that overthrows the rule of the bourgeoisie and does away with the exploiting classes.

The internal contradictions of socialist society have a totally different nature. They are not antagonistic, and are resolved in the course of the successful efforts to develop and consolidate the productive forces and the relations of production in the course of the progress of socialist society towards the highest phase of communism.

Technological progress in socialist society

Socialism opens up great perspectives for accelerating technological progress. Under capitalism a new machine is installed only to lower production costs, and not as a measure to save social labour.

In the socialist economic system new equipment is installed whenever it is profitable to society and when it saves and lightens labour. The wide employment

of new equipment in socialist society facilitates the labour of workers, reduces working hours and multiplies the social wealth. Technological progress boosts labour productivity, which in turn is instrumental in steadily improving living conditions. Consequently, under socialism all the working people are vitally concerned with perfecting technology. They vigorously join in the efforts to stimulate technological progress and improve the organisation of production.

This, of course, does not mean that socialist society can use any amount of equipment it pleases. The mass of equipment that can be put into operation depends on the level of social wealth. The possibilities for technological progress depend on the scale of production, the level of science and engineering and the funds that society can afford to use for extended reproduction.

At a given level of social wealth, the rates of further growth depend largely on how rationally material and labour resources are used. The rates of development of productive forces depend on the most expedient capital investment channeling and the effectiveness of social production. The potential for swift production growth rates inherent in the socialist economy is not realised automatically, but through consistent struggle to put the advantages of socialism to good use.

Material and technical basis of socialism

Every social system has its material and technical basis. The material and technical basis of

one or another society embraces first and foremost its productive apparatus, that is, all the technical equipment available to human labour. The level of development of the productive apparatus is directly bound up with the level of the human labour force, and also with a definite system of production relations.

Marx defined the material basis of capitalism as large-scale machine industry based on hired labour. In other words, the material basis of capitalism is machine production operating under the domination of capitalist production relations and developing according to the economic laws of capitalism.

The material and technical basis of socialism is large-scale machine production in industry, agriculture, building, transport and other sectors of the economy. In other words, the material and technical basis of socialism is developed machine production operating under the domination of socialist production relations and developing in line with the economic laws of socialism.

As it develops and improves the material and technical basis of socialism becomes the material and technical basis of communism.

The preconditions for creating the material and technical basis of socialism emerge already under capitalism, which evolves large-scale machine industry. But the material and technical basis of socialism itself is created after the victory of the socialist revolution. It is the result of the socialist industrialisation of the country, collectivisation and technical re-equipment of agriculture, and also of the cultural revolution which enormously stimulates material production.

The development of the material and technical basis of the USSR in the period of socialist construction is characterised by unprecedentedly high indices. By 1940 and 1972 the volume of industrial output in the USSR compared with the pre-revolutionary year of 1913 had increased by 7.7 and 105 times respectively, the national incomes rose by 5.3 and 51 times, the production of the basic assets of the economy by 2.6 and 23 times.

During the eighth five-year period (1966-1970) industrial production increased 50 per cent; in the ninth five-year period it will rise 42-46 per cent, as envisaged in the Directives of the 24th CPSU Congress which took place in March-April 1971.

The USSR accounts for almost 20 per cent of world industrial production, and its national wealth is 15 times that of tsarist Russia. Today Soviet industrial enterprises turn out more output in five days than the industry of tsarist Russia manufactured in a year.

High economic growth rates are characteristic not only of the USSR but also of the other countries of the

socialist system which are building up the material and technical basis of socialist society.

2. Economic Laws of Socialism

Specifics of the operation of the economic laws of socialism The economic life of any society is governed by definite laws.

These laws are objective and operate independently of the will and consciousness of the people. They express the inner connections of phenomena existing independently of people's will and consciousness. Yet, the economic laws of socialism differ substantially from the economic laws of all the earlier forms of society.

Engels wrote that the difference between them can be likened to the difference between the destructive force of lightning and electricity, which submissively operates in a telegraph apparatus or in a lamp, between a conflagration and a fire benefiting man. Both lightning and the electricity which lights a lamp are caused by an identical natural force. But lightning strikes man spontaneously and he is unable to control it, whereas the natural force operating in an electric lamp has been understood and harnessed by man.

The economic laws of capitalism and of all earlier forms of society operate spontaneously. People cannot control them just as they cannot control lightning. So long as there is private ownership of the means of production people are unable consciously to use the economic laws of social development, which like the forces of nature operate blindly, violently and destructively.

Based as it is on public ownership of the means of production, socialism unites the economy into a single whole. Economic development becomes a sphere of conscious and purposeful activity just as production at every individual enterprise.

Under socialism people learn to understand the objective economic laws, to master and apply them in economic development in the interests of society as a

whole. Society, as represented by the socialist state, applies the economic laws of socialism scientifically. It harnesses them just as people harness electricity to light an electric bulb.

The history of the building of socialist economy in the USSR and other socialist countries proves that it cannot take place spontaneously and is conducted consciously by society which comes to know and applies the economic laws of socialism. The accumulation of practical experience makes it possible to apply these laws with greater effect. At the same time their correct application secures fulfilment of practical tasks, while their violation harms the common cause.

In the course of socialist construction society gains an ever deeper knowledge of the economic laws of that system and masters them to an ever increasing extent. This task is fulfilled by the Communist Party armed with the knowledge of Marxist-Leninist theory. Fulfilling practical tasks, the Marxist-Leninist Party concurrently develops revolutionary theory.

The aim of socialist production. The basic economic law of socialism

The transition from capitalism to socialism fundamentally changes the aim of production. Under capitalism the direct aim of production is to obtain profit through the exploitation of hired labour.

In socialist society there are no capitalists and no exploitation of man by man. Jointly owning the means of production, the working people engage in production to satisfy the requirements of society and all its members.

As far back as before the establishment of Soviet power Lenin wrote that the socialist revolution, replacing private ownership of the means of production by public ownership, introduces a planned organisation of social production to ensure the prosperity and all-round development of all members of society. As the Programme of the CPSU points out the aim of socialism is to meet the growing material and cultural requirements of the people ever more fully by continuously

developing and improving social production. Therein lies the source of the tremendous might of the socialist economy, of the inexhaustible creative forces of free socialist labour.

Socialist society expands and improves production for the purpose of raising the material welfare and cultural level of the working people. This is the substance of the basic economic law of socialism. The sustained growth and systematic improvement of socialist production, which is a condition for the ever fuller satisfaction of the people's requirements, is the basis of socialist society's movement towards communism.

3. Economic Role of the Socialist State

The socialist state—
organiser
of the creative activity
of the popular masses

In socialist economy, which is based on the conscious application of the objective economic laws of social development, the state plays a fundamentally different role than that played by the state in capitalist economy, which is governed by spontaneously operating economic laws.

The socialist revolution gives rise to an absolutely new type of state. This state faces tasks that no other government had ever undertaken: it has to destroy the old, outmoded capitalist economic system, set up new forms of social economy, and build the socialist economic system.

The socialist state has real possibilities for successfully fulfilling these tasks. Abolishing exploitation it turns the popular masses into conscious makers of history—that is the source of its creative power. It organises the masses, directs their efforts towards the fulfilment of the great tasks of social transformations.

The socialist state works out long-term and current economic plans and organises their fulfilment and over-fulfilment. It appoints managers of individual enterprises, groups of enterprises, branches of the economy,

determines the forms and principles of remunerating the labour of factory and office workers, carries through a definite price policy for industrial and agricultural products and fixes transport tariffs. The state budget, being the main financial plan of the socialist economy, is crucial to the whole economic life of society. The state monopoly of foreign trade is a barrier preventing foreign capital from penetrating and exploiting the socialist countries.

Distribution of the social production is another, extremely important function of the socialist state. Under socialism the bulk of the social product comes under the control of the state which ensures the normal replacement of the expended means of production in all branches of the economy and socialist accumulation essential for expanding production. Effecting specially designed measures it distributes the national income in such a way as to ensure a steady advance in the people's welfare and a consistent growth and improvement of production on the basis of sophisticated equipment.

Socialist society lives and develops at a time when imperialism's aggressive forces are still in existence in capitalist countries. This means that the socialist states has to organise and maintain its defence potential.

The most important task of all socialist states is to strengthen the unity and cohesion of the world socialist system.

The scientific basis of the economic policy of the Communist Party and the Soviet state

The economic policy of the Communist Party, just as its policy in general, develops on the basis of Marxist-Leninist theory, which discloses the objective laws of social development and the objective economic laws of socialism, in particular.

The economic policy justifiably holds a central place in the many-sided political activity of the Communist Party. Its purpose is to develop the productive forces and relations of production in socialist society. The Party's policy as a whole, and its economic policy in particular, reflect the vital interests of the Soviet people.

The farsighted policy of the Communist Party is designed to ensure that today's progress lays the foundations for greater progress in the future, that ultimate aims are not sacrificed for the purpose of achieving current aims, and vice versa. It is from this point of view that the Party solves such key problems of economic development as the fixing of growth rates for the entire economy and for its individual branches, establishment of proportions in social production, the direction of technological progress and ways of advancing living standards.

The interests of the people and the policy of the Communist Party which expresses these interests coincide fully with the objective trends of social development. In line with the objective laws of social development victorious socialism advances towards communism, and the policy of the Party is aimed at ensuring the country's progress in this direction.

At every stage of socialist and communist construction the Party sets the immediate tasks in keeping with the changing internal and external conditions on the basis of an all-round analysis of reality. In doing so the Party is guided by the Leninist precept concerning the interconnection of economic and political tasks, the unity of the economy and politics in the process of socialist and communist construction.

**Leninist principles
in socialist
economic management**

Lenin emphasised right after the victory of the socialist revolution in Russia that the chief task of the triumphant working class in

the socialist revolution was to regulate the new intricate and subtle organisational relations governing the planned production and distribution of products essential for the existence of millions of people. Once the political victory over the bourgeoisie has been achieved and consolidated, he wrote, a similar victory must be won in the organisation of the economy.

The management of the socialist economy is called upon to organise the smooth and efficient functioning of the whole economic organism. The task is to ensure

that the whole complex economy should function like clockwork. As the socialist economy grows both qualitatively and quantitatively and the production processes become more involved, the mutual links and dependencies become more and more complex both in individual enterprises and between enterprises, branches and economic districts. In these conditions the efficient organisation of economic management acquires increasing importance.

Improving the methods of economic management the Communist Party applies the Leninist principles of socialist management which in practice have proved their strength and viability. In keeping with the decisions of the CPSU these principles are developed and enriched as the socialist economy expands, its growth potential mounts and its tasks become more complex.

Socialist economic management is based on the Leninist principle of democratic centralism which calls for strict adherence to one-man management coupled with the enlistment of the broad mass of factory and office workers in economic management in all links of the production process. It ensures the maximum scope for the development of the creative energy and initiative of the masses of working people combined with unity of will and purpose lacking which large-scale production, the modern highly developed economic organism, could not function normally.

The growth and the expansion of the democratic principles of economic management and control is one of the most important requirements of socialist society, one of its objective laws. As the socialist economy develops and its tasks expand and become more complicated, the need for developing the democratic basis of economic activity increases and becomes ever more essential.

Lenin forcefully warned that two things threatened the principle of democratic centralism. First, the transformation of democratic centralism into bureaucratic centralism, and secondly, a violation of centralism by all sorts of parochial or anarchic tendencies.

The improvement in economic management and control is promoted by the simultaneous development of the two principles of democratic centralism: democratisation of management and centralisation of guidance, whose correct combination is crucial for the scientific management of the economic construction of socialism and communism.

The improvements in economic management being carried out by the Communist Party and the Soviet Government is a further development of such time-tested Leninist principles of socialist management as democratic centralism, socialist cost accounting, the combination of moral and material incentives to work. The Leninist principles express the objective laws of socialism. The improvement of the methods of socialist management indicates a more successful assimilation of these laws and their more efficient application in the interests of society.

Chapter XI

THE PLANNED DEVELOPMENT OF SOCIALIST ECONOMY

1. Planned Economic Organisation and Management—Socialism's Chief Advantage

Possibility and need for
planned economic
management
under socialism

As we already know, in capitalist economy the necessary proportions between the components of social production are established spontaneously through numerous fluctuations and deviations. This leads to the enormous destruction of the productive forces through rivalry, crises and unemployment. That is the substance of anarchy of production which is inevitable under capitalism.

The anarchy of production stems from the basic contradiction of capitalism—the contradiction between the social character of production and the private capitalist form of appropriation. Socialism abolishes this contradiction. In socialist society the public ownership of the means of production and consequently the results of production correspond to the social character of production.

Drafting the general outlines of socialist society Marx and Engels predicted that under socialism the anarchy of production would be replaced by social production, organised according to plan and designed to satisfy the requirements of society as a whole and of each of its members. Lenin noted that the socialist revolution has to fulfil the gigantic task of transforming the entire economic mechanism of the state into an efficient apparatus capable of guiding the work of millions of people in keeping with a single plan.

Just as capitalism is inconceivable without anarchy of production, socialism is inconceivable without planned development of the entire economy. Planned economic management is a basic feature of socialist economy. Under socialism economic activity is carried on under a single economic plan with the view to increasing social wealth and achieving a steady rise in living and cultural standards. The economic co-operation between socialist countries is also conducted according to plan.

All state and co-operative enterprises operate on a planned basis. The state economic development plan ties up the production and distribution of output on a social scale into a single whole. Not only industry, agriculture, transport, building and trade organisations, but also scientific institutions, cultural, educational and medical establishments work according to plan. In socialist society the plan is designed to ensure the unity of purpose and will in the whole of economic and cultural development and the entire gigantic process of socialist and communist construction.

This means that socialism makes planned economic management both possible and necessary. Economic planning is an inherent quality of socialist economy which is based on public property which is free of exploitation of man by man and has no objective other than satisfying the requirements of society and is developing in keeping with objective economic laws that are understood by society and applied in socialist and communist construction.

The law of planned,
proportional
development

Planned, proportional development of the economy is an objective economic law of socialism. Applying this law, socialist

society runs its economy with mounting success.

The law of planned, proportional development expresses the need for the planned organisation of the entire economy. This is a new task, one that arises only in a socialist society. Under capitalism, which is based

on the private ownership of the means of production, there is economic management only within the framework of individual enterprises, firms and concerns. The bourgeois state, especially in modern conditions, strives to introduce some elements of planning in economic development, but under capitalism the economy as a whole remains unmanageable—it is left at the mercy of the spontaneous laws of the capitalist mode of production. The narrow confines of capitalist private property prevent the introduction of planned organisation of the entire economy.

Increasing mastery of the law of the planned, proportional development of the economy under socialism is achieved through the constant improvement of economic planning. Planned management embraces the aggregate of measures designed to ensure the functioning of the law of planned, proportional development and rests on the objective economic laws of socialism. Arbitrariness in solving economic problems is incompatible with planning.

Economic planning rests on an accurate estimation of the objective conditions for the development of the economy, its motive forces and trends. The more thoroughly are the objective conditions and economic laws of socialism considered in plans, the more successfully they are implemented. The socialist plan is based on scientifically established social requirements and an objective appraisal of the productive resources and reserves. It indicates the ways for the most effective development of the economy.

The planned attainment of the essential proportions in the national economy is a new task which came to the fore only with the establishment of socialism. Improving economic planning methods, socialist society is successfully coping with it. But, since this is an extraordinarily difficult task, it may happen that some economic proportions are temporarily violated. In this case it is up to the planned management of the economy to spot the emergent disproportion as early as possible and take effective measures to remedy it.

In order to ensure high and stable growth rates in socialist economy it is vitally important to change the economic structure by giving priority to the progressive branches of production. The consistent improvement of the structure of social production is crucial for planned, proportional economic development and for the creation of the material and technical basis of communism.

The law of labour economy

Planned economic development is unthinkable without careful management. The need for and the possibility of thrift stem from the very nature of the socialist economic system. The need is dictated by the aim of socialist production, namely, the satisfaction of social requirements. The possibility exists because socialism knows neither the anarchy of production, destructive competition, economic crises and unemployment nor other incurable ills characteristic of the capitalist system.

The founders of Marxism-Leninism emphasised the crucial principle of the economy of labour under socialism. Lenin always insisted on thrift; he said that money should not be squandered and that waste was intolerable in a socialist state. Like Marx, he linked thrift with the planned management of the entire process of socialist construction. The achievement of maximum results for the benefit of society with minimum expenditure is an immutable law of economic development in socialist society.

Main proportions in socialist economy

The planning of socialist economy must ensure the necessary quantitative relations between individual components and the links of the economy as a whole.

The main proportions in the economy are those between its main sectors, that is, between the development of industry and agriculture and the work of transport. The proportion between the production of the means of production and the output of consumer goods is also very important.

The aggregate industrial and agricultural output is a source which yields the means for consumption and accumulation. The ratio between consumption and accumulation is also one of the most important economic proportions which in socialist society is established and maintained according to plan.

For the economy to develop normally there must be a correspondence between production and sales. That means that the growth of purchasing capacity of the population must be accompanied by a corresponding increase in the amount of goods on sale. There must also be a definite ratio between state expenditures and revenue.

It is essential that definite proportions should be maintained not only in the structure of production but also in the utilisation of the labour resources.

No less important are inter-area proportions. Socialism ensures the rapid development of all economic areas of the country and a rational distribution of the productive forces. The comprehensive development of every area goes hand in hand with its specialisation in accordance with its natural resources. Specialisation creates the need to promote inter-area links which become increasingly diversified.

National economic balances

Co-ordination of the plan's components on the basis of national economic balances is an important aspect of socialist planning. Among the key balances are the balance between the national income and its utilisation; the balance between labour resources and their utilisation, broken down according to economic areas in particular; the balance between the population's cash incomes and expenditures; the balance between financial resources and the main material resources. A scientifically elaborated system of balances is the main condition ensuring correct proportions and ties in the national economy.

The balance between the national income and its distribution illustrates the division of the national income into its main components—consumption and

accumulation. The balance of labour resources helps establish labour requirements or methods of satisfying these requirements by utilising labour resources.

As regards the balance between the cash incomes of the population and its expenditures, it takes into account the wages of factory and office workers, the incomes of collective farmers, pensions and other cash incomes of the population, on the one hand, and the cost of goods and services which can be sold to the population and the expenditure of the population on all sorts of payments, on the other. The balance between the cash income and expenditure is an important instrument of planning the money circulation. The state budget is the balance between state revenue and expenditure.

Among the material balances a leading role is played by the balances of the means of production: electricity, fuel, metal, all types of machines, building materials, chemical products, etc. These balances help co-ordinate the output of the extractive and manufacturing industries and plan the development of associated industries. Other material balances are the balances of consumer articles (industrial products and foodstuffs).

In their totality the balances embrace the entire economy and give a picture of the interrelations between its principal elements. With the help of balances it is possible to establish correct proportions in the economy and disclose internal resources and reserves.

Main ways of raising
the effectiveness
of production

Optimisation of planning, the
furnishing of optimum solutions
to individual economic tasks,
ensure a steady rise in the
effectiveness of social production which covers the
entire range of processes determining the growth of
production, both qualitative and quantitative, at a
minimum of social expenditure in the broadest sense
of the word. It follows, therefore, that the basic factors
in raising the effectiveness of social production are all
the elements that in the given conditions help multiply
the results of production. These factors include the rise
in labour productivity, economy of raw and other

materials, improvement of the quality of output and, notably, the increase of the volume of output per unit of the productive assets—the assets/product ratio.

The increase in the effectiveness of social production is decisive for the rapid growth of the people's welfare. In socialist society the social consumption fund grows the quicker, the higher the productivity of social labour, the bigger the yield per ruble of productive assets, the more the output manufactured from every ton of raw and other materials. This makes the working class, the collective farmers and the intelligentsia vitally interested in raising the effectiveness of social production, in all the measures taken in this direction.

Optimisation of planning

To be realistic the plan must be balanced. Failure to correlate all its elements leads to disproportions thus making it necessary to correct the plan in the course of its fulfilment. It should be borne in mind, however, that there can be a large number of well-balanced and practically attainable variants of the plan.

Consequently, it is of the utmost importance to choose the best variant. The rates and the proportions fixed in the plans for economic development should be the optimum ones. This means that the plans should provide for the most effective use of all the potentialities and resources of socialist economy.

Plans are necessary not only for the balanced development of the economy in keeping with the mounting requirements of the socialist society, but also for the sustained increase of effectiveness of production. It is necessary to draw up such a balanced plan that will ensure high production growth rates, the most rational economic proportions and high quality of output, at the minimum expenditure of social labour.

The need to choose the optimum plan is dictated by the very substance of socialist planning. As the socialist economy grows and its tasks become more complex, the optimisation of planning on the basis of precise calculations of the interdependence in the economy becomes all the more important. The optimisation of

planning is achieved with the help of mathematics. The modern level of mathematics and computing techniques makes it possible to compute optimum variants of the plan.

It is the rate of growth of the national income necessary to ensure the required level of the welfare of the population and the full utilisation of the society's labour resources that is the most general criterion on the basis of which it is possible to judge whether the plan is an optimum one.

Compilation of the plan and its fulfilment

planning methods.

The experience gained in socialist construction has made it possible to work out definite practical

In the Soviet Union economic development plans are drawn up on the basis of directives approved by the Party and the state. These directives fix the basic political and economic tasks of the plan and the quantitative targets for the various branches of the economy and economic areas. They stipulate the volume and direction of capital investments and methods of stimulating technological progress and improving economic management.

On the basis of Party and Government directives the central planning bodies work out concrete draft plans and targets, relying on the great work in the compilation of plans conducted at enterprises, the main links of the economy. Plans drawn up at enterprises are summed up in the plans of economic branches. After the indicators of the plan have been approved by the superior economic body they become the basis for the activity of the enterprise.

In keeping with the economic reform in progress in the USSR, the superior body endorses only a few basic plan indicators, all others are worked out independently at the enterprise on the basis of concrete conditions the enterprise works in and its possibilities.

The enterprise's plan, which organically combines the technological, economic and financial aspects of its activities, is called the technological, industrial and

financial plan. It determines the enterprise's production, technological and financial activity and includes the production programme, the plan for technological development, for material and technical supply, for labour and wages, for the cost of production, for financial operations and for organisational and technological measures.

The production programme is the main link of the technological, industrial and financial plan. It sets the targets for the production and realisation of the output. The production programme stipulates the volume of output, its assortment and quality. All sections of the plan regulating the various activities of the enterprise are based on the same initial indicators. In the course of the intrafactory planning the indicators in the enterprise's plan are broken down into targets for the enterprise's individual production sections, for its shops, departments and teams.

The plan of every enterprise contains provisions for the receipt of raw materials, fuel, electric power and equipment from other enterprises. This aspect of the enterprise's activity is reflected in the economic contracts regulating the relations between supplier and consumer enterprises. The contracts also stipulate the materials to be delivered, terms of delivery, the price of each material and payment terms. The fulfilment of contracts is obligatory for both parties. Each side is held materially responsible if it violates the terms of the contract.

The drawing up of the plan is only the beginning of planned economic management whose most important function is to organise the fulfilment of the plans.

While the plan is being fulfilled the staffs of enterprises display creative initiative in disclosing additional possibilities for increasing production and improving its quality. They probe the internal reserves and latent potentialities in enterprises, shops, departments, collective and state farms. Important questions connected with the development of new areas, the exploitation of newly discovered natural resources are put on the

agenda; major tasks are set to introduce new equipment and technology and improve the organisation of labour and production.

The national economic plan is not a collection of abstract figures but a reflection of the activity of the masses building socialism and communism. In the effort to fulfil and overfulfil the plan socialist emulation drives are launched between enterprises, teams and individual workers.

Socialist planning is in effect planned management of the entire economy. National economic plans assign top priority to national interests. This makes it necessary to observe strict discipline in effecting the plan, and do away with all elements of parochialism and departmentalism affecting the interests of the economy as a whole.

**Long-term and
current planning**

Socialist economic planning is based on the organic combination of long-term and current plans.

In modern conditions the five-year plan is the principal form of scientific planning. It determines the prospects of the productive and economic activity of an enterprise for a period long enough for it to fulfil major tasks aimed at improving and increasing the effectiveness of production. The most important targets of the five-year plan are broken down into annual targets. The targets are considered and concretised in the annual plans in accordance with current changes in resources and requirements of society and with due account for the technological and economic progress.

Five-year plans are designed to provide a sound technological and economic basis for the tasks set the economy as regards production growth, the wide introduction of scientific and technological achievements and progressive changes in the structure of social production. With their help it is possible correctly to appraise the economic effectiveness of measures conducted in that period (for example, with regard to the development of new areas, the building of large power stations, factories and so forth).

Current plans, on the other hand, are necessary to ensure the timely fulfilment of concrete targets, to unite the efforts of the individual collectives of working people for the realisation of the immediate tasks of economic construction, and to ensure a planned, rhythmical growth of production in all branches of the economy. In recent years increasing significance is attached to long-term plans designed to cover 15-20 years.

Planned quotas Planned quotas or norms are of the greatest importance in the planned organisation and management of the economy.

Quotas regulate the utilisation of the material and labour resources and also financial outlays. They are set for the expenditure of labour, materials, fuel, electricity per unit of output, for the utilisation of equipment, semi-finished products, for stocks of raw materials, fuel, etc.

Quotas do not remain unchanged. They improve with economic development, technological progress, improvements in the organisation of labour and production. There is improvement of the quotas for machinery and equipment utilisation, for example, the coefficient for the utilisation of the useful volume of blast-furnaces, the yields of steel per square metre of the hearth of the open-hearth furnaces, the number of operating hours of power stations, the yield of coal per combine, and so forth. The lowering of quotas for labour and material expenditure per unit of output is also very important.

The experience of the best workers opens up vast possibilities for raising quotas for the utilisation of machinery and equipment, for the economy of raw and other materials, the growth of labour productivity and the decrease of production costs. Socialist planning rests on the practice of advanced enterprises, progressive workers, engineers and technicians. Planned economic management pursues the aim of consistently introducing scientifically elaborated, progressive quotas in all branches of the economy. Progressive planned quotas for the utilisation of machinery and equip-

ment, raw and other materials, and also for technological methods and terms for the execution of work stimulate the mobilisation of the enterprises' internal resources and reserves.

Planning and accounting The system of economic accounting and statistics is a most important instrument of planning. Lenin said that socialism is accounting. In the period of communist construction accounting becomes even more important.

In socialist society accounting and reporting are organically linked with the economic plan. Since the plan includes financial and physical indicators, accounting is effected both in monetary and physical form.

A smoothly functioning system of accounting and reporting makes it possible to control progress in the fulfilment of the plan as a whole and of its separate parts, to disclose what interferes with its fulfilment and to draw up measures to improve work. Data on the fulfilment of the plan provided by the system of accounting and reporting are indispensable for compiling the plan for the next period.

The principal forms of accounting in socialist economy are statistics and bookkeeping.

Statistics summarise the numerical data on the processes operating in the economy and in its separate sectors. Statistics ensure the systematic collection and grouping of accounting data, their unity and comparability. They show the weak links in the development of the economy and warn well ahead of the danger of economic disproportions.

Consequently, statistics act as the organising and leading principle in the entire system of socialist accounting. Without statistics there can be no scientific economic management based on a knowledge of the laws of the social mode of production. The accuracy and opportuneness of statistical returns are of immense importance for planned economic management.

Bookkeeping is a method of recording the daily movement of material and monetary means at every enterprise and organisation. It is conducted in the form

of a balance and gives a characteristic of the financial results of an enterprise's activity. The monetary indicators in bookkeeping reflect all the aspects of the performance of the enterprise, its successes in production and its shortcomings.

Bookkeeping is a means of controlling the fulfilment of plans, the condition and the movement of material values and money placed by the state at the disposal of the enterprise. It must be exact and at the same time simple so as to be accessible to the broad mass of the working people. Good organisation of bookkeeping is an essential condition for the implementation of cost accounting, battling against mismanagement and fulfilling the plan at each enterprise.

2. Improvement of Planning and Management of Socialist Economy

Need for further improvement of methods of socialist economic planning

The concrete forms of planned economic management develop and improve in keeping with the changing conditions and the new

tasks facing the economy. Improvement of the planned management of socialist economy is one of the most urgent tasks of the economic reforms now underway in the Soviet Union and other socialist countries.

The need to improve methods of socialist economic management is dictated first and foremost by the growth and development of the socialist economy.

In the initial stage of its development the economy of the Soviet Union chiefly embraced a comparatively limited range of such mass types of products as coal, metal, cement, etc. In these conditions it was relatively easy to determine the resources and requirements of the national economy.

But the rapid growth of the economy made the conditions for its development more complicated. Today Soviet industry turns out a large number of items whose production had been started just a few years ago. The

number of new types of goods produced on the basis of scientific and technological progress is rapidly increasing. The total volume of output has increased tremendously. The swift growth of production and the increased complexity of the economic structure are characteristic of other socialist countries, too.

The need to improve economic management methods is a natural consequence of the transition of the socialist countries from extensive to intensive economic development. Extensive development means the expansion of production primarily with the help of additional capital investments and the involvement of fresh labour resources in the production process. Intensification of production is its growth achieved as a result of a sharp improvement in the use of all the means of production—both the means of labour and materials—better organisation of labour and a further considerable increase in its productivity.

A very important aspect of the intensification of production is its qualitative improvement. If we take consumer goods, their improved quality ensures their sales and the mounting demand of the consumers. The rise in the welfare of the people inevitably makes them more demanding with regard to the quality, finish, etc., of the manufactured goods. As regards the means of production, the improved quality and purity of the raw materials, increased durability, extended period of exploitation without the need for repairs, availability and reliability of the means of labour increase the total sum of material wealth put at the disposal of society.

The consistent intensification of the entire sphere of material production, of all its branches and processes calls for a higher stage of planned management of the socialist economy. It follows, therefore, that it was the development of the socialist economy that dictated the need for a fundamental improvement of the organisational forms and methods of economic management. It became necessary to replace the old forms of management with new ones corresponding to the new requirements called for by the development of the economy.

"It can be said," Leonid Brezhnev noted, "that in the period of NEP and the first five-year plans we went through the primary school of socialist economic management. Today we have before us the tasks of the higher school of socialist economy. They are the most complicated and creative tasks on the road to communism."

New system of planning and economic stimulation of production

The economic reform in the USSR consists of a system of measures aimed at improving management and planning and enhancing

economic stimulation of social production. The reform proceeds from the leading role of centralised planned management in the development of the socialist economy. Its main purpose is to improve the basic economic proportions and the siting of production and stimulating the complex development of economic areas. It is a task of planned management to secure higher rates of production and supply of crucial commodities. The purpose of planned management is to carry through the uniform state policy in the sphere of technological progress, capital investments, remuneration of labour, prices, profits, finances and credit, and exercise economic control over effective use of the production funds and labour, material and natural resources.

The economic reform is a new stage in the development of the Leninist principles of democratic centralism which ensures the combination of wide scope for the development of the creative energy and initiative of the broadest masses of working people with the unity of purpose and will that are essential for the normal functioning of socialist enterprises and the economy as a whole.

The growth of socialist economy enhances the importance of centralised economic management and at the same time heightens the significance of the initiative of the masses. The growth and extension of the democratic principles in planned socialist economy are an objective law of the socialist system.

The new system of management combines uniform state planning with complete cost-accounting of enter-

prises, centralised branch management with extensive republican and local economic initiative, and the principle of one-man management with the heightened role of production collectives.

This further develops the democratic principles of management, creates economic pre-conditions for the broader participation of the masses in the management of production and enhances their influence on the economic activity at the enterprises.

The new system of management dictates the need to improve planned management of the economy and raise the scientific level of state planning. First and foremost this means that the planned rates of growth of production, the national income and the fundamental proportions in the national economy have to be determined on the basis of scientific calculations. Plans are drawn up to secure the most rational use of potentialities and resources, and the rapid introduction of scientific and technological achievements into production. They also take into account the prospects opened up by scientific and technological progress.

The heightening of the scientific level of planning and centralised economic management is accompanied by vigorous improvement of economic management methods and economic stimulation of production both in industry and agriculture.

The aim of the economic reform is to improve centralised planning and make the workers' collective interested in the fullest utilisation of the productive resources, in raising the effectiveness of their labour and further stimulate their initiative in achieving these objectives. Resorting to economic stimuli the new system of management is called upon to combine the interests of each worker, enterprise and society as a whole and thus create the most favourable conditions for the rational utilisation of the country's gigantic resources, rapid growth of the people's welfare and the fullest embodiment of the advantages of the socialist system.

3. Planned Socialist Commodity Production

Planned nature of commodity-money relations

The abolition of the private ownership of the means of production and the establishment of public ownership radically alter the character of commodity production and the role of commodity-money relations.

The Programme of the CPSU points out that in communist construction it is necessary to make full use of commodity-money relations in keeping with their new content in the socialist period. In this, such instruments of economic development as cost accounting, money, price, production cost, profit, trade, credit, and finance play a big part.

In socialist society almost all output is produced at socialist enterprises. The greater part of it is produced at state enterprises and therefore is the property of the whole people. A certain part is produced at collective farms and comprises the common property of groups of working people. The output of socialist production directly embodies social labour, organised on a national scale, and not the labour of individual producers.

Therefore, commodity production under socialism should be viewed as planned commodity production. It is free from the contradictions bred by the anarchy of production under the domination of private ownership of the means of production. This is new, socialist commodity production.

Commodity as a product of socialist production

The commodity is, on the one hand, a use value, and on the other, a value. We consider that commodity, which is a product of socialist production, also possesses these two qualities.

In the socialist system of economy there is no contradiction between the use value and the value of the commodity, which under the domination of private property is what engenders all the antagonisms of the capitalist mode of production. This, however, does not

mean that under socialism there are no contradictions between the use value and the value of the commodity. Sometimes products cannot be sold because of their low quality or high price. In perfecting the methods of planned economic management due account is taken of the possibility of contradictions arising between the use value and the value of the commodity produced in a socialist society.

The value of a commodity is determined not by individual labour actually expended on its production but by the amount of labour socially needed for its production and reproduction. Compensation of expenditure in socialist society is the compensation of socially necessary expenditure. If, for example, the enterprise produces articles no one needs, the compensation it receives for its expenditure will directly decrease the total amount of society's wealth. The same thing happens when an enterprise spends more labour and material resources on the production of its output than is necessary in the given production conditions.

Changed production conditions, the introduction of better equipment and technology and the growth of labour productivity alter the amount of socially necessary labour embodied in a unit of output. These objective factors are taken into consideration by society in the course of planned economic management when prices are fixed, labour remunerated, and so forth.

The role of the law of value in planned economy

The planned management of the economy makes it necessary to commensurate and compare the expenditure on production with its results. The expenditure on production consists, first, of the expenditure of live labour and, secondly, of the expenditure of embodied labour in the shape of the means of production, that is, raw materials, fuel, machinery and equipment.

The effectiveness of social production is highest when each enterprise yields the best results at minimum outlay. Only by comparing the sum total of production expenditure with its results is it possible to judge how

this immutable law of socialist economic management is being observed. In order to compare the expenditure of an enterprise over a definite period with the mass of the output produced in that period, it is necessary to reduce both the expenditure and the results of production to a common denominator. This common denominator is economic categories expressing commodity-money relations.

Under socialism a person who works receives from society as much as he gives society minus that which goes for social needs. The amount of labour he gives society in one form is returned to him in another form. This applies both to individual workers and to enterprises and branches. An enterprise or a branch of production will develop normally only if its expenditures are compensated. Compensation of expenditures is the foundation of the material stimulation of production.

It is obvious that the law of value is an objective economic law inherent in socialism, and is the basis of the economic methods of planned economic management and the economic stimulation of production.

Communist society will be guided directly by the principle of labour economy in economic development without resorting to the expression of labour expenditure in terms of value. Then, with the transition to a single public communist form of property and to the communist system of distribution, commodity-money relations will economically outlive themselves.

System of value relations in the socialist economy The normal functioning of socialist economy depends directly on a definite system of interlinked value relations, including price and profit, wages and bonuses, trade, finances and credit, differential rent, interest, taxes, etc.

It should be noted that value categories of socialism have an entirely different socio-economic content than analogous categories of capitalism.

Under the domination of private property price is a form of expression of the law of value which operates spontaneously in conditions of anarchy of production

and destructive competition. In socialist economy price is one of the most important means of planned economic development, a form of expression of the law of value operating in conditions of public ownership of the means of production.

In capitalist society wages are the price of labour power which the proletariat sells to the capitalist. In socialist economy wages are a form of remuneration of the labour of workers who are free from exploitation and are engaged in social production.

Under capitalism profit is the fruit of the exploitation of labour by capital; it embodies the surplus value created by the unpaid labour of the workers and appropriated by the class of capitalist exploiters. In socialist economy profit is the criterion determining the contribution made by each enterprise to the development of social production and the multiplication of social wealth.

The character and the role of all other value categories change in the same way. Instead of being forms expressing capitalist relations of production, they all become forms expressing the production relations of socialism.

The system of socialist value relations regulating the exchange of activities in socialist economy ensures conditions in which all that is profitable for society is also profitable for production collectives, for each worker.

The new character of the commodity-money relations in socialist society consists in that they express socialist production relations, relations of planned socialist production.

The unity of the plan
and the law of value

This fact determines the fundamental features of socialist commodity production, of the law of value and of all the categories connected with the law under socialism. First, in socialist economy the law of value is no longer a force operating spontaneously through endless price fluctuations. The socialist law of value cannot lead to anarchy of production and destructive crises. Second, with the abolition of exploitation of man

by man, labour power ceases to be a commodity, an object that can be bought and sold. As a result of the nationalisation of land and, particularly, following the socialist reorganisation of agriculture, land can no longer be bought or sold.

Under socialism the law of value does not lead to the consequences which it inevitably engenders in conditions of private property. It cannot give rise to capitalist relations with all their inherent contradictions, since in socialist society the means of production cannot turn into the means of exploitation, into capital. Only articles of consumption can be bought and sold and become personal property.

Thus, in socialist society the law of value and the categories based on it—price, wages, profit and so forth—acquire a new content. They are economic categories of planned socialist economy, precluding the exploitation of man by man, anarchy of production, etc.

In the socialist economic system the law of value is not alien to the planned, proportional development of the economy. Indissolubly bound up with it, it becomes a component of the entire system of objective economic laws of socialism and is consciously implemented in the planned organisation of the national economy.

The unity of these laws, their interconnection and interaction create the objective need for centralised planned economic management combined with the extensive operational and economic independence of the basic economic links—socialist enterprises. This combination presupposes the all-round development and strengthening of the economic methods of planned management with the help of the system of socialist value categories.

The functions of money in socialist society The operation of the law of value under socialism makes it necessary to have a monetary system. Price, production cost, wages, profit and other value categories are expressed in terms of money.

In the socialist economic system money expresses socialist production relations and serves as an impor-

tant instrument of planned economic management. It fulfils several functions.

First, money is a measure of value. The value of the commodity—all socially necessary expenditure of live and embodied labour spent on its production—is expressed in a definite sum of money comprising its price. In this connection money is also a means of measuring prices: it serves to compare and to commensurate the prices of commodities.

Functioning as a measure of value money is a means of public control over the measure of labour and the measure of consumption of the members of society. The labour of the members of society is measured in terms of money. Factory and office workers and, to a high degree, collective farmers get money for their work.

In its function as a measure of value money is also an instrument of cost accounting. The labour expenditure necessary to produce commodities, the expenditure of raw and other materials, the wear of equipment, and buildings, the expenditure on the management of production, freightage, the delivery of goods to the consumer through trading organisations and so forth are also expressed in terms of money. The results of an enterprise's performance can be expressed most fully and, in a most general way, in terms of money.

Second, under socialism money serves as a means of circulation. Workers and employees of state enterprises spend their wages on the purchase of goods. Collective farmers also buy goods on their incomes. The sale and purchase of commodities is conducted by means of money.

Under socialism money in its function as a means of circulation does not evolve contradictions as it does in capitalist society, and is not fraught with the threat of crises. The bulk of the goods sold in socialist society are the product of direct, social labour. This being the case, the sale of goods does not encounter those obstacles which under capitalism arise from the contradiction between the social character of production and private capitalist form of appropriation.

If some commodities cannot be sold this is due to their inferior quality, shortcomings in the work of trading organisations, and other similar reasons. These factors are not rooted in the socialist economic system and are removed as a result of improvement in economic management.

Third, in socialist society money is a means of payment. As a means of payment money is used to settle accounts between enterprises, pay wages to factory and office workers, taxes, and interest on state loans, and so forth.

Under capitalism money in its function of a means of payment aggravates the contradiction inherent in the commodity and therefore contributes to the maturing of economic crises. Socialist economy is free of these contradictions. Socialist enterprises may delay the payment for goods and services only because of a failure to fulfil the production or construction plan, inferior quality of the output, excessive production costs or a slow-down in the circulation of material means. Such payment difficulties are overcome by improving the work of the enterprise and by increasing the responsibility of enterprises for the fulfilment of their contractual obligations.

Fourth, in socialist society money fulfils the function of a means of socialist accumulation and saving. The mobilisation of accumulations in the entire economy takes place in the form of money. These means are used to expand socialist production, augment the country's economic potential and defensive capacity and to provide for the material and cultural needs of the working people.

Finally, money in a socialist state fulfils the function of world money. Thus, Soviet currency serves as a means of payment in the commodity exchange and other economic ties with the countries of the socialist system and a number of countries outside that system. A similar role is played in one degree or another by the currencies of other socialist countries which have extensive economic ties with the outside world.

Chapter XII

COST ACCOUNTING

1. Socialist Productive Enterprise

The enterprise—the primary link of the national economy

The socialist economic system embraces tens of thousands of state-owned enterprises in industry, building, agriculture, transport and other branches of the economy. In addition to state enterprises there are collective-farm and co-operative enterprises, primarily collective farms, producing the bulk of agricultural products.

An enterprise is a production and technological unit. It turns out definite kinds of products, with the help of a corresponding productive apparatus and using corresponding types of raw and other materials. At the same time it is a socio-economic unit, a collective of working people employed in a given cell of the economy.

An enterprise is the basic link of the economy. The state provides material and monetary resources to every enterprise: buildings, machinery, equipment, raw material stocks, fuel, and so forth. The enterprise sells its output and uses the proceeds to cover its production expenses.

The rights and duties of enterprises are fixed in the Statute of the Socialist State Productive Enterprise approved by the Council of Ministers of the USSR in

October 1965. The Statute lays down the general principles regulating the management of the enterprise and its production and economic activity, its rights in planning, capital construction and repairs, improvement of production techniques and technology, material and technical supply, and in sales, finances, labour and wages. Considerably extending the rights, economic initiative and independence of the enterprise, the Statute fully corresponds to the crucial tasks facing not only industrial enterprises, but also those of the building industry, agriculture, transport and communications.

An enterprise is a legal and an economic unit and is responsible for the results of its activity. Its activity is based on a combination of centralised guidance with economic independence and its own initiative. Working in keeping with the plan on a cost accounting basis, it must achieve maximum results with a minimum expenditure of labour, material and financial resources. For this purpose the enterprise must make the fullest use of its productive capacities, internal reserves, the land and other natural resources at its disposal.

The enterprise must observe a strict regime of economy, introduce the latest achievements of science, technology, advanced experience, and set progressive quotas for the expenditure of raw and other materials, fuel and electric power; it must lower production costs and raise the profitability of production. The enterprise fulfils these demands since it possesses broad rights and has every opportunity to display economic initiative.

A new and very important form of organisation of industry dictated by practical requirements are branch associations working on a cost accounting basis. Their establishment has opened up extensive opportunities for specialisation, co-operation and concentration of production and promotes the national utilisation of skilled personnel and better technological and economic management of enterprises.

The assets of an enterprise

The means of production at socialist enterprises form their productive assets. They are divided into fixed assets and the assets in turnover. The fixed assets embrace the means of labour, the assets in turnover include the objects of labour. The fixed assets serve the production process over a number of production cycles during which they transfer their value to the finished product piecemeal over a long period. They maintain their physical form during the entire production process. The assets in turnover are completely used up in every production cycle transferring their value to the finished products in full. In the production process they change their form and become new products, satisfying a specific social requirement.

The assets in turnover consist, first, of the objects of labour that have not yet entered the production process and, second, the objects of labour that are already in the production process. Accordingly, the assets in turnover consist of 1) the production stocks (raw materials, fuel, etc.) and 2) the unfinished output.

In addition to the productive fixed assets, the enterprise has non-productive assets which are its houses, schools, clubs, etc.

Every enterprise also has assets on hand which are its means in the sphere of circulation. They include the finished but still unsold output and the money resources of the enterprise designed for the payment of wages, the purchase of raw and other materials and for sundry payments.

The productive assets in turnover and the assets on hand form the circulating assets of the enterprise. Part of the circulating assets are placed at the disposal of the enterprise by the state. These are the enterprise's own assets. The other part consists of funds obtained on credit from banks.

If an enterprise is to work effectively all its assets and means must be used in the most rational manner. This means that the fixed assets—productive areas, buildings, equipment, machinery and lathes—must be

used to the maximum. Further, this presupposes economical expenditure of the circulating assets: lowering the expenditure of raw and other materials and fuel per unit of output, and accelerating the turnover of the circulating assets by eliminating surplus or unnecessary stocks and speeding up the sale of the finished output.

The essence and tasks of cost accounting It is clear from the above that the achievement of maximum results with a minimum outlay in the interests of society is an immutable law of economic development under socialism. Cost accounting is the most important means of practising the strictest economy at socialist enterprises.

Cost accounting is a method of planned management of socialist enterprises based on a comparison of the expenditure of the enterprise and the results of its activities in monetary form. Every enterprise working on a cost accounting basis draws up a balance sheet that accurately reflects its income and expenditure, profits and losses. It has a current account at the State Bank and disposes of the sums on that account in keeping with the existing rules. The enterprise signs economic contracts with other enterprises and organisations and is responsible for their fulfilment. It has the right to obtain bank credits to supplement its own resources.

It follows, therefore, that cost accounting is a definite form of relations between the socialist state and the enterprises and also between individual enterprises. The consistent observance of the cost accounting principle helps disclose and make the fullest use of all the resources and potentialities of the enterprise. Cost accounting is designed to ensure that the labour expenditure on the production of every commodity is reduced to the minimum socially necessary level. It is indissolubly linked with the regime of economy for it presupposes a rational and prudent expenditure of labour, material and money resources, that is, the avoidance of losses and unproductive expenditure in all branches of the economy.

Cost accounting fixes the responsibility of every enterprise in the person of its administration for the utilisation of its assets and the results of the enterprise's performance. It presupposes strict order at the enterprise and strict accounting of all the enterprise's material and monetary resources and strict control over their expenditure.

Under socialism all working people are vitally interested in prudent management at every enterprise and also on a national scale. Moreover, cost accounting makes the staff of every enterprise materially interested in fulfilling and overfulfilling the plan, in attaining maximum results with minimum outlay. This aim is achieved through the system of economic stimulation of production based on cost accounting.

A production collective is interested in the successful work of the enterprise as a whole, since its overall performance determines the accumulation and the size of the incentives funds set up to finance bonuses paid to workers, engineers, technicians and managerial personnel, measures aimed at improving the cultural facilities available to the staff and their living conditions, and the further development of production.

Intrafactory cost accounting

The success of the national economic plan depends on the performance of all enterprises, whereas the success of the plan at every enterprise depends on the performance of its shops, production departments, teams, in fact, on the activity of each worker.

Naturally, cost accounting could not be complete if it embraced only the economic links between enterprises. To be complete it must also involve the relations within the enterprise, between its components—shops, departments and teams.

Intrafactory cost accounting as applied within a shop, department and team serves this purpose. It consists in comparing the expenditure on production with its results in each of these sections.

Intrafactory (shop) cost accounting is an integral part of the system of economic stimulation of produc-

tion. With the introduction of the new system of management, the further development of intrafactory cost accounting has become even more important.

Intrafactory cost accounting presupposes first of all that plan targets are handed down to every production section. The fulfilment and overfulfilment of the plan targets are encouraged by issuing bonuses to the workers of the shop, department and team in question.

2. Basic Principles of Cost Accounting

Profitability of production and ways of raising it

Cost accounting is one of the most essential features of socialist economic management.

The purpose of cost accounting is to ensure the profitable operation of enterprises. Every enterprise operating on a cost accounting basis must not only cover its expenditures out of its proceeds but also yield a profit.

The profitability of production is raised by making better use of all the resources at the disposal of the enterprise, eliminating all losses, instituting rigid financial control of all business activity, lowering production costs and ensuring the high quality of output.

To strengthen and develop genuine cost accounting and, hence, to raise profitability, the following measures are necessary. First, conditions must be created in which the enterprise is interested in the optimum use of its assets, in increasing its output and raising its profits. Second, it is essential to strengthen the cost accounting principle in the relations between enterprises, secure the strict observance of their delivery obligations and increase their material responsibility in this field. Third, it is necessary on the basis of cost accounting to make every enterprise, shop and department interested not only in fulfilling its targets, but also in improving the overall results of the enterprise's

activity, in working out and fulfilling higher plan targets and in putting the internal resources to better use with a view to increasing the profitability of production.

Full cost accounting is designed to strengthen the interest of the staffs of enterprises and of individual workers in improving the performance of enterprises expanding production, increasing the profitability of enterprises and raising the quality of output, and securing the optimum utilisation of the productive assets. Genuine cost accounting is impossible without a searching, expert analysis of the economic activities of individual enterprises, industries and economic areas.

Of tremendous importance are all measures aimed at boosting the effectiveness of production. Effectiveness of production embraces the entire range of processes which lead to a quantitative growth of production and improve its quality at the least possible social expenditure. The principal factors raising the effectiveness of social production include all the means which under given conditions multiply the results of production. They are: higher productivity of labour, more economical expenditure of raw and other materials, improved quality of output and particularly increase in the volume of output per unit of the productive funds—the assets/product ratio.

To raise the effectiveness of social production it is imperative to abolish such shortcomings in economic construction as the fragmentation of capital investments and the related extension of the period required to build new projects and assimilate new capacities, machinery and equipment, to prevent the immobilisation of funds caused by the laying-in of excessive stocks of raw and other materials, the growth in the volume of incompleting production and wasteful use of live and embodied labour. In other words, it is essential to achieve the maximum mobilisation of the resources and reserves of the socialist economy and make the fullest possible use of the advantages and potentialities of the socialist system of economy.

Effectiveness of social production and scientific and technological progress

Technological progress occupies a key position among the measures instrumental in raising the effectiveness of social production.

Socialist economy is fully equipped to advance in the forefront of the scientific and technological revolution and takes advantage of its results with the utmost speed. Socialism ensures favourable conditions for the development of all branches of science. The socialist countries attach tremendous importance to training scientific personnel and assign considerable sums for building and equipping scientific research institutes. The Soviet Union leads the world in many key branches of science.

Today it is extremely important to speed up technological progress, install more sophisticated and productive types of equipment, machines and lathes and improve technology in keeping with the demands of production. The tasks involved in the creation of the material and technical basis of communism insistently dictate the need to enhance the role of science and especially to implement its achievements in all spheres of material production at a faster pace. The growth of the Soviet people's welfare and the rate at which they advance towards communism are contingent on the unslaking progress of science and technology. It is of the utmost importance speedily to implement the latest achievements in science and technology in industrial and agricultural production, transport and communications, and to take all steps to ensure the steady growth of the country's productive apparatus on the most advanced technical basis.

One of socialism's enormous advantages over capitalism is that it rationally employs machines, equipment and other productive capacities. In socialist economy, where there are no crises of overproduction and where the rapidly growing commodity output has a sufficiently wide market, the productive apparatus always functions at full capacity.

This raises the responsibility of the enterprise for the rational use of its productive assets. Under condi-

tions of full cost accounting the effective use of the raw and other materials and equipment determines the size of profit and the level of the profitability of the enterprise, and, hence, the size of the incentive funds. In these conditions the staff is interested in enforcing a strict regime of economy and in setting progressive quotas for the expenditure of raw and other materials, fuel and electric power.

**The struggle for
economy and thrift**

An essential condition for raising the effectiveness of social production is economical use of raw

and other materials, fuel and electric power. The task is systematically to lower the material/product and the power/product ratio per unit of output, that is, the amount of materials and power spent on its production.

Saving raw and other materials and electric power means using them to the best advantage. It also means that production waste must be systematically lowered, that there must be neither rejects nor losses due to careless storage of materials. Furthermore, it means that output must be only of a high quality, for the production of inferior products is tantamount to wasting valuable materials. Of great significance is the setting of progressive expenditure quotas for raw and other materials, fuel and electric power per unit of output. The quotas must be technically based and correspond to the modern level of advanced technology and the organisation of production.

The experience of advanced collectives and innovators of production indicates the existence of considerable reserves for economising on the use of the material resources. These reserves are present in industry, agriculture, construction, transport, trade, research and designing institutions and government agencies.

Thrift in the socialist sense has nothing in common with capitalist moneygrubbing. Capitalism is characterised by senseless wastefulness, on the one hand, and the curtailment of all that facilitates and improves labour, on the other. Socialist economic management,

on the contrary, means a decisive struggle against losses and unnecessary expenditure coupled with concern for facilitating labour and improving its conditions.

Thus, the enforcement of measures to avoid losses of electric power does not mean economising on electric power at all cost or lowering its consumption in every case. On the contrary, rational use of electric power must be combined with a growth in the power available to labour and improvement of work conditions through better illumination and ventilation of production premises, and so forth.

Thrift must be practised with the utmost prudence. An "economy" that affects the quality, reliability and durability of products or the correct maintenance of equipment is impermissible. The output of low quality products is an extremely dangerous form of waste.

Payment for the use
of productive assets

The productive assets are the essential basis of the national wealth, and as such their quantitative and qualitative growth is the chief condition for raising the productivity of social labour and increasing the national income. Naturally, when society places a share of its wealth at the disposal of an enterprise and its staff, it expects them to contribute to the growth of the national wealth. Part of these contributions are paid as payment for the use of assets.

The free allocation of assets, once practised in the Soviet Union, ran counter to the principles of planned socialist commodity production. It gave a distorted picture of the enterprise's performance and failed to take into account such an important aspect of its activity as the degree of the utilisation of the productive assets. Consequently, there was no way of ascertaining the enterprise's full production expenditures. The placing of the productive assets free of charge at the disposal of the enterprise did not stimulate their utilisation to the maximum.

The introduction of payment for the use of productive assets is intended to make the enterprise interested in expanding its output and in increasing not only the

sum total of profits, but also the profitability of production, that is, the size of the profit as related to the value of the productive assets. The charge for the use of the productive assets is such that after payment any normally operating enterprise can retain a definite portion of the profit to establish incentive funds and cover its planned expenditure.

Specific features of cost accounting at collective farms

Cost accounting is the basis of rational management not only at state enterprises, but also at collective farms.

At collective farms, as at state enterprises, thrifty management presupposes that all production outlays and the results of production should be fully accounted for and accurately compared.

The criterion of a collective farm's performance is the quantity, quality and cost of its output or to be exact, the labour expenditure per unit of output. The estimation of production costs at the collective farm has its own specific features. They stem from the fact that at collective farms a definite part of the output is used in its natural form for further production on the same farm (seed, cattle), while another part is distributed among the members of the artel as payment for workday units.

As is the case at state enterprises, the general economic results of the activities of collective farms are determined by the ratio between the expenditure on, and the results of production. This makes the collective farm interested in systematically lowering expenditure of social labour and material means on the production per unit of agricultural output. All this is attained by the all-round use of the productive resources and labour power, consistent observance of the socialist principle of labour remuneration, a thrifty attitude to wealth of the collective farm and multiplication of its common property.

The best possible results are obtained through the rational use of the soil for the production of the most valuable crops. On top of that efficient farm manage-

ment includes land improvement, extensive use of fertilisers, improvement and cultivation of wastelands, drainage of swamps, irrigation, making of storage lakes and the introduction of correct crop rotation.

Rational use of the means of production means skilful use of equipment and introduction of comprehensive mechanisation. It is, therefore, necessary to supply the collective and state farms with more and better equipment and improve the design of farm machinery. In this connection technological progress, which enables the farms to perform a larger volume of work with fewer machines, plays a particularly important role.

Comprehensive utilisation of collective-farm labour resources is attained through the widest possible participation of all able-bodied collective farmers in the work of the farm. The fullest use of the labour force at collective farms depends on the consistent implementation of the socialist principles of remuneration according to the quantity and quality of the work done, and the transition to the most advanced forms of labour remuneration.

Rational management also implies keeping machines, implements, farm buildings and structures in good condition, economical use of raw and other materials and care for cattle.

The principal way of raising the output of agricultural products is by intensifying agriculture consistently on the basis of mechanisation, electrification and chemicalisation of production, and extensively developing melioration in zones with unfavourable natural conditions.

Differential rent The nationalisation of the land removed the conditions giving rise to absolute rent. This, however, does not apply to differential rent.

Additional income derived from plots of land with better natural fertility than others and also as a result of their closeness to markets is called differential rent.

Collective farms which have more fertile land than others spend less labour per unit of output. Equal expen-

diture of labour and the same level of mechanisation, if the farming system is the same, will enable collective farms located on more fertile land to produce more than collective farms on worse lands.

Differential rent is also formed as a result of the varying distances of the collective farms from railway stations, wharves, storing centres, towns and other places where farming output is sold. As a result, the cost of a unit of output is lower in these collective farms than in those located at a greater distance from these points.

The economic policy of the Soviet states with respect to differential rent is based on the premise that the excess income received from the natural fertility of better plots and also from the proximity of consumer markets should be used for public needs.

This principle is implemented mainly by fixing differential purchasing prices for agricultural products according to the zones with different conditions for agricultural production. Part of the differential rent remains with the collective farms and serves as a source for expanding production and improving living conditions at the farms.

Production costs and their structure

The value of output is equal to the aggregate expenditure of a given enterprise on its production.

The direct expenditure of an enterprise on the production of the output consists of a number of parts:

first, wages, that is, remuneration of the labour of workers;

second, outlay on raw and other materials, and fuel;

third, expenditures on the restoration of the fixed assets, that is, of the means of labour used in production.

The sums spent on wages and to pay for raw and other materials and fuel are charged fully to the costs of the output produced during a given period. This does not apply to the expenditure on the restoration and renewal of machinery equipment and production premises. This expenditure is included in the cost of the total output produced with the help of these means of

labour during the whole period of their service in proportional shares as deductions on depreciation. The sum of depreciation deductions during the whole service life of the fixed assets must be large enough to compensate for all the outlays on the acquisition of these assets and on their partial restoration and modernisation.

In addition to expenditure on wages, raw and other materials and the depreciation deductions, production costs also include outlays on the organisation of production in the shops and in the enterprise as a whole. This includes the wages of the administrative personnel, engineers, technicians, and the servicing personnel, and also outlays on the repairs of production premises and structures, expenditure on the power equipment and intrafactory transport. This group of expenditures is called the general factory and shop expenditures.

Finally, full production costs include the outlay on storage, packing, transportation and other expenses on the sale of the output.

The ratio of the different components of the production costs is known as their structure. The structure of the production costs differs in the various branches of industry; it also differs in individual factories of a single branch, depending on their size, technological level, location, etc.

In the extractive industry wages account for a large share of the production costs, since the objects of labour (coal, ore) are provided by nature. These are labour-intensive branches. In the manufacturing industry, on the other hand, material expenditure accounts for the larger portion of the production costs. These are material-intensive branches. In some branches of industry—the power-intensive industries—the expenditure of electric power (non-ferrous metallurgy, for example) is very high. Then there are branches of industry in which the share of equipment depreciation is very high (in the oil industry, for instance). These are branches with a high capital/product ratio.

The average structure of the production costs for the whole of the Soviet industry in 1971, for example, was as follows: raw and other basic materials accounted for 64.1 per cent, auxiliary materials 4.6 per cent, fuel 3.8 per cent, power 2.5 per cent, depreciation 5.3 per cent, wages plus social insurance charges 15.5 per cent, other expenditures 4.2 per cent.

**Price in the
socialist economy**

The price of a commodity produced in a socialist enterprise is a monetary form of its value.

Having mastered the law of value the socialist state fixes prices on commodities on the basis of the socially necessary expenditure of labour on their production.

In the socialist economy the system of prices should be constantly improved and brought into conformity with technological progress, growth of production and consumption, and reduction in production outlays. In ever greater measure prices must reflect the socially necessary expenditure of labour, ensure the return of production and circulation outlays and a certain profit for each normally working enterprise.

Prices play a major role in socialist economy. First, the price is a common denominator with the help of which all the expenditure on production is compounded and compared with the results of production. Prices reflect the expenditures and results in the economy as a whole and in each enterprise. The price system is the focus at which all the threads of the planned management of the national economy converge. It co-ordinates all the complex relations within individual branches and those between the various branches of the economy. The cost of production depends on the prices of raw and other materials, tariffs for electric power and transport operations, whereas the profit at the given cost level depends on the price of the output produced at the enterprise.

The price on industrial output expresses either the relation between state enterprises operating on a cost accounting basis (wholesale prices), or the relation between the state and individual members of socialist

society in the sphere of the distribution of consumer articles (retail prices). The relations between the state and the collective farms are expressed in the purchasing prices for collective farm output.

The price of a commodity is based on its average branch production costs. But it cannot be equal to production costs. The costs include only part of the socially necessary expenditure on raw and other materials, the depreciation of the fixed assets, and the wages that are paid out. At the same time the commodities produced embody the surplus labour of the workers in socialist economy and its value is not included in the production costs. Thus, the costs do not embrace all the socially necessary expenditure on the production of the commodity and therefore do not ensure profit and accumulation.

The price of the commodities, embodying the aggregate of the socially necessary expenditure on its production, is made up of the average branch cost of the commodities plus a definite profit. The sum of the profit included in the prices of all commodities produced by society is equal to the value of the whole product of the surplus labour expended in social production. The sum of prices of all commodities produced by the socialist economy is equal to the sum of their values.

While the cost of production reflects the labour/product and material/product ratio of the production of the commodity, the profit must also express the assets/product ratio. Output, whose production requires large capital investments from society (that is, a large expenditure of the fixed and circulating productive assets), costs it more than output whose production requires smaller capital investments. Accordingly, in addition to the costs the price of the commodities produced must, as a rule, contain a definite portion of the net profit; the size of that portion depends on the assets/product ratio of the commodities.

As we know, price is first and foremost a universal means of accounting in planned socialist commodity production. At the same time the price category fulfils

a number of other functions. Prices are fixed in such a way as to stimulate technological progress, expand production and steadily lower costs. They are also fixed so as to co-ordinate the consumer demand for definite commodities with the possibilities of increasing their production. That is why it is sometimes necessary to have the prices on specific commodities deviate from their value.

An important aspect of the price policy is that it promotes economical expenditure of scarce types of raw materials, and the utilisation of new materials. The relation of prices of individual commodities is fixed in a manner that stimulates the consumption of goods whose output can be rapidly expanded (owing to the availability of raw materials, productive capacities, etc.).

It is of the utmost importance to fix correct prices on interchangeable commodities. In such cases prices are called upon to expand the production of commodities which are more profitable from the national economic point of view.

The price policy of the socialist state is conducive to the consistent improvement of technology. Prices must stimulate the output of the more sophisticated types of equipment, machines and apparatuses. At the same time they must be instrumental in making enterprises stop the production of technically outdated types of commodities.

The significance of profit in assessing the performance of an enterprise

To maintain the necessary proportionality in the economy every enterprise must fulfil definite targets as regards the amount of output it sells and the basic nomenclature of its output. Providing these targets are fulfilled the following are regarded as the most general criteria of the enterprise's performance—profit, as the difference between the total outlay on production and the proceeds from the sale of the finished output, and the profitability, as the ratio of the sum total of profits to the productive assets.

There is a close relationship between the indicators for the volume of marketed output, the sum total of the profits and profitability. The volume of marketed output characterises the results of production, but in itself it does not provide any information as to the outlay on production. The sum total of the expenditure on production is expressed by the production costs. Yet it is impossible to evaluate the results of production on the basis of this indicator alone. Though the lowering of costs is an extremely important task, the resources of society increase not only through the drop in the costs per unit of output, but also as a result of the growth of the volume of produced and sold output and the improvement of its quality.

The profit indicator is important because it reflects all aspects of the enterprise's production activities. Every improvement in its work—economy of raw materials, better use of equipment, rise in labour productivity and so forth—increases profits, whereas any deterioration in the work of the enterprises causes a drop in profits. Profits grow through an increase of the proceeds as a result of an expansion of production and through the decrease of outlays due to the lowering of production costs. Therefore, profit is the most general criterion for evaluating of an enterprise's performance.

A very important role is played by the profitability indicator that characterises the effectiveness of production which is the higher, the greater is the profit per ruble of the productive assets.

Financial control All the monetary resources of enterprises—the proceeds from the sale of their output, bank credits and budget financing—are charged to the account of the enterprise in the State Bank.

Enterprises settle their accounts with other enterprises and with institutions, organisations and the financial system by written order. Cash is drawn from the account to pay wages and certain other expenditures. In exceptional cases the account may be debited without the agreement of the management: as a rule

this happens only to enterprises which are in arrears with their payments and have violated financial discipline.

The enterprise's account is, in effect, the cashier since all its income and expenditure pass through it. The money paid into the account gives a correct picture of the way the planned production and sales targets are being fulfilled. The state of the account and the financial statements and balances enable the bank to obtain a true idea of the progress in the fulfilment of the plan. If necessary the bank issues a timely warning to the enterprise's superior economic bodies about its financial position and suggests that measures be taken to improve its work. In this way the bank exercises financial control over the activities of every enterprise.

This control is based on the enterprise's financial dependence on the results of its activities and on the fulfilment of its contractual obligations with other enterprises—consumers and suppliers. The better the enterprise works, the more economically it uses raw and other materials, fuel and money resources, and the quicker the turnover of its assets, the better is its financial position.

At the same time the financial position even of an excellently operating enterprise may be unsatisfactory if the buyer of its output is in arrears with his payments, or if the suppliers are either late in delivering raw and other materials and fuel, or supply it with materials of inferior quality. This explains the need for the mutual control of enterprises and economic organisations.

**Incentive funds
of enterprises**

Deductions made from the profits of enterprises form the material incentive fund, funds for social and cultural purposes, housing construction and the production development fund.

The material incentive fund is designed to finance bonuses which are paid out not only for high production indicators during the year but also as lump sum

rewards at the end of the year depending on the results of the enterprise's activities in that period.

The fund for social and cultural measures and housing construction is designed to satisfy the urgent needs of the enterprise's staff. It finances housing construction and social development, the repair of the housing owned by the enterprise, the improvement of welfare and medical services for its staff, the purchase of accommodations at rest homes and sanatoriums and lump sum grants.

The production development fund is used to purchase new equipment, modernise operating equipment and expand production.

The incentive funds are used to pay material rewards to workers not only for personal success in work but for the economically effective work of the enterprise as a whole. This not only rouses the material interest of the working people but also promotes their consideration for the interests of the enterprise as a whole and attaches them to their place of employment.

Chapter XIII

SOCIALIST ORGANISATION OF SOCIAL LABOUR

1. Main Features of Socialist Labour Organisation

Socialism—the highest form of the organisation of social labour Every mode of production has its own organisation of social labour.

The feudal organisation of labour was sustained by the discipline of the whip and the extreme poverty and oppression of the working people exploited by a handful of landowners. The capitalist organisation of social labour hinges on the discipline of hunger under which the mass of the working people are hired slaves exploited by a small group of capitalists. As Lenin pointed out, the communist organisation of social labour with socialism as its first stage, relies on the free and conscious discipline of the working people who have overthrown the rule of the landowners and capitalists and will rely on it to an ever greater extent as socialist society moves towards communism.

Having come to power, the working class represents and implements a higher type of social labour organisation. This is the source of power and an earnest of the inevitable complete triumph of communism. The higher type of the organisation of social labour makes it possible to achieve higher labour productivity than that under capitalism. Labour productivity is of the

utmost importance for the victory of the new, higher social system.

Following the abolition of private ownership of the means of production and its replacement by social ownership, the means of production are no longer counterposed to the working people but belong to them and are used by them in the interests of the whole of society. The fusion of labour power with the means of production takes place on a new, higher basis. This basis is large-scale production which rests on the social ownership of the means of production and the application of modern science and highly developed technology.

The transformation of social life wrought by socialism radically altered both the position of labour in society and the attitude of the people to labour. In a socialist society labour ceased to be an oppressive yoke. It is free labour all of whose fruits go to benefit society, all working people.

This causes people to change their views on labour. In socialist society they regard labour as their prime duty.

The socialist organisation of social labour first and foremost emancipates labour from the fetters of exploitation. Socialism is a great change from forced labour for the exploiters who had ruled for millennia, to labour for one's own self, for the good of the whole of society. Moreover, it is labour based on all the achievements of modern technology and culture.

At enterprises that are the property of the whole people all workers are hired by the state. This form of hire expresses the relations between individual working people and society as a whole, and not the relations between different classes.

Socialist society cannot and does not have two classes one of which sells its labour power to the other. Labour power ceases to be a commodity: it can be neither bought nor sold. The working class applies its labour power at enterprises which it owns jointly with all the people.

At the same time the abolition of exploitation and unemployment has swept away the conditions that under capitalism inevitably promote rivalry among the working people. Socialist relations of production are relations of friendly emulation and co-operation and mutual support in labour.

Necessary and
surplus labour

The labour of the members of socialist society includes, first, the necessary labour, whose product goes to satisfy the direct requirements of the people in food, clothing, housing, cultural facilities, and, second, the surplus labour, whose product goes to satisfy social needs and requirements.

Surplus labour, as labour over and above the amount necessary to satisfy the direct requirements of the people, must exist in any form of society. Without surplus labour and surplus product there could be no further development of the productive forces and, hence, no social progress.

In socialist society surplus labour is essential first and foremost for the purpose of accumulation. It is through the accumulation of a definite part of the surplus product that the socialist countries have carried out and are continuing their sweeping construction programmes. Second, part of the surplus product covers expenses on the maintenance of the administrative personnel and the educational and public health systems and also ensures the defence potential of the socialist state. Third, a certain portion of it goes to maintain incapacitated members of society—old people and the ill—and also children. Fourth, another part of the surplus product goes into the reserve, contingency fund, set up for the purpose of coping with the aftermath of natural calamities and adjusting possible miscalculations in planning.

The right to work

The socialist organisation of social labour guarantees the right to work. The dream of generations of working people of a social order that would know no unemployment

and no economic crises, which in capitalist society periodically destroy masses of the fruits of labour and colossal material wealth, has come true for the first time in history.

The right to work cannot be exercised under capitalism. It recognises another "right"—the "right to other people's labour", which only the exploiters enjoy. Destroying the exploiters' "right to other people's labour", socialism asserts the right to work for all people, that is, the right to guaranteed work and payment for it depending on its quantity and quality. The right to work is ensured by the socialist organisation of the economy, the steady growth of its productive forces, the elimination of conditions engendering crises and the abolition of unemployment.

Universal and
obligatory labour

The socialist organisation of
labour makes labour universal
and obligatory.

The right to work at the same time means that people have to work honestly and conscientiously for the benefit of society. Socialism does away with the parasitical classes which do not take part in social labour. By abolishing unemployment and crises it saves people from forced idleness.

The universal and obligatory nature of labour under socialism is expressed in the principle "He who does not work, neither shall he eat". Lenin emphasised that this principle is the basis of socialism, the indefeasible source of its strength, the pledge of its final victory.

The replacement of forced labour for the exploiter by free labour for one's own behalf, for the whole of society, cannot be effected without a resolute attack on the vestiges of capitalism in the minds of the backward sections of the working people, without a struggle against people who shirk socially useful labour, against the remnants of parasitical elements.

Universal and obligatory labour is an inherent feature of both socialism and communism.

**Socialist methods
of stimulating labour**

One of the most important features of the socialist organisation of social labour is elaboration of new stimuli to work.

Capitalism induces people to work with methods that had been worked out over the centuries. And today, too, it continues to design methods for pumping out as much work as possible out of hired slaves. Naturally, the elaboration of new, socialist methods for inducing people to work is not a simple matter and requires a vast amount of painstaking and patient effort.

With the abolition of exploitation of man by man all the fruits of labour are made available to society and are used to benefit the working people themselves. This is the root of the people's keen interest in the results of production, an interest which does not exist under capitalism. In socialist society the connection between the labour expended and its remuneration must be felt by every worker. This is achieved by implementing the socialist principle "From each according to his ability, to each according to his work". This formula is rich in content. It means, first, that all members of society must work to the best of their ability, and, second, that every person who works is entitled to be rewarded by society in accordance with the quantity and quality of his work.

Socialism abolishes the gap between the rights and duties existing under capitalism and any other exploiting system. In socialist society all able-bodied members of society have equal access to the means of production which are public socialist property. In these conditions everybody works for one's own and society's benefit.

**Socialist labour
discipline**

The fall of capitalism inevitably breaks up capitalist labour discipline which rests on the threat

of hunger, on the economic enslavement of the working people. But large-scale social production is inconceivable without strict labour discipline. Lenin, therefore, stressed that labour discipline is the pivot of economic development under socialism.

Socialist labour discipline is wholly unlike all preceding types of labour discipline both in essence and in the way in which it is created and maintained. It is a higher type of discipline than that of capitalism. It is the conscious discipline of workers who have thrown off the yoke of the exploiters. The creation and preservation of socialist labour discipline is the championed cause of the overwhelming majority of working people.

The fostering of social labour discipline is one of the basic forms of the class struggle of the proletariat after it has taken over power. Lenin said that the creation of a new labour discipline, of new forms of social links between people and new forms and methods of inducing people to work is a job that will take many decades. He considered it a most gratifying and noble task.

As it changes the psychology of all working people on the basis of large-scale socialist production and fosters in them the discipline of joint, comradely labour, the working class also re-educates itself. In its efforts to strengthen labour discipline the socialist society in the person of the state employs methods of persuasion and coercion with regard to idlers and shirkers who strive to get as much as possible from society while giving it as little as possible in return.

2. Productivity of Social Labour

**Steady growth
of labour productivity** The socialist organisation of social labour is designed to raise labour productivity to a higher level than under capitalism in order to satisfy the growing requirements of socialist society and all its members.

Thanks to its higher level of labour productivity the socialist system ultimately triumphs over the outmoded capitalist system. Under capitalism labour productivity was much higher than under feudalism. As regards labour productivity under socialism, it is higher than in capitalist society.

The growth of labour productivity is expressed in the decrease of the total live and embodied labour per unit of output. The share of live labour decreases more rapidly than the share of past, embodied labour. The rise in labour productivity is attained by replacing manual labour by mechanised labour and old or outmoded machinery by new and more sophisticated machinery.

Another essential condition for promoting the growth of labour productivity is constant improvement of the organisation of labour and production. Besides technological progress, other important conditions promoting labour productivity in Lenin's opinion are stricter labour discipline of the working people, improvement of their skills, greater intensity and better organisation of labour.

Ways of promoting
the growth
of the productivity
of labour

Under socialism the systematic growth of labour productivity is ensured with the help of methods that are wholly unlike those employed under capitalism. In capitalist society the growth of labour productivity is attained largely by intensifying labour, that is, by overdriving the worker. In socialist society labour productivity rises as a result of rapid technological progress, modernisation of equipment and technology and better organisation of production. Modern equipment and technology attaches particular importance to scientific organisation of labour and production, full use of labour time: the abolition of stoppages and the introduction of measures to do away with unproductive expenditures (losses) of labour time.

One of the basic factors promoting the growth of labour productivity is the improvement of skills. Modern scientific and technological progress demands a steady growth in the cultural and technological level of the people employed in the economy. The introduction of more sophisticated equipment yields the desired effect only if it is manned by skilled workers in all sections of the national economy.

In socialist economy the rise in labour productivity causes a steady reduction in the share of wages in the production costs. However, the lowering of the share of the expenditure on wages in production costs is not accompanied by a drop in wages but by a steady growth of the wage fund as a whole, and, hence, also of the absolute size of the wages drawn by individual workers. The vast advantages of the socialist system are manifested by the fact that the economy of live labour goes hand in hand with the steady growth in the welfare of the working people.

In the course of communist construction the growth of the productivity of social labour is a major prerequisite for creating an abundance of material wealth essential to effect the transition to the communist principle of distribution according to requirements. The principal way of raising labour productivity is to ensure the improvement of the technological level of production on the basis of the development and introduction of new equipment and technology, extensive introduction of complex mechanisation and automation and further specialisation and co-operation of production.

Specialisation and co-operation of production

Specialisation and co-operation of enterprises, mass production and combination of production are among the most advanced

methods that are characteristic of large-scale production and which tend to accelerate scientific and technological progress.

Specialisation means that the production of identical items is concentrated at certain enterprises. It is one of the forms of the social division of labour. Specialisation makes for a further division of labour between enterprises and also within them, between shops and departments, thus making it possible to use highly productive equipment, modernise machinery and mechanisms and improve technology. At the same time specialisation helps the workers and engineers to acquire production experience.

There are three basic forms of specialisation: first, the break-down of the production of heterogeneous articles so that each factory specialises in the production of specific articles (for example, factories turning out motor vehicles); second, there is a break-down of production so that each factory produces parts of the finished product—specialisation in components (special factories producing automobile parts—engines, bodies, piston rings); third, specialisation in the separate operations or stages of the technological process—the technological or stage specialisation (foundries, forging and pressing works, and so forth).

**Combination of
production**

The combination of production is another factor promoting a rise in the productivity of social labour. Combination means the concentration of interconnected production processes at a single enterprise.

At first glance it might appear that combination is the opposite of specialisation; actually it is directly connected with it. They are but different methods of concentrating production, yielding in definite conditions a higher economic effect.

There are three basic forms of combination.

First, there is combination based on uniting consecutive processing stages. An example of this is the iron and steel complexes where all stages of metallurgical production, from the extraction of iron ore to the production of rolled metal, are combined, and which also have facilities for the production of coke required for the iron and steel industry. The textile industry offers another example.

Second, there is combination based on the complex utilisation of raw materials. This form of combination is widespread in the chemical industry processing organic raw materials (coal and oil), complex ores of non-ferrous metals and in the processing of agricultural products at food industry enterprises.

Third, there is combination based on the utilisation of waste. It is practised, for example, at the wood-

working enterprises which also process sawdust and shavings.

Thus, combination is widespread in branches where the processing of raw materials passes through several stages comprising a single cycle, and also in branches where production is based on the complex utilisation of raw materials and fuel.

Socialist emulation Socialist emulation plays an extremely important role in raising the productivity of social labour. The bourgeoisie and its apologists assert that only competition enables people to show what they are capable of doing. In effect, however, competition brutally suppresses the abilities of the working people. Deceit, fraud, impoverishment of the masses and the enrichment of a handful of exploiters are part and parcel of competition.

Socialist emulation has for the first time afforded full scope to the development of the innumerable abilities and talents that the bourgeois system had crushed and strangled. Competition is the struggle of all against all, whereas socialist emulation is the comradesly co-operation of the working people, their joint efforts for a general upsurge. Competition mirrors the hostile disunity of the producers, while socialist emulation expresses universal collaboration of people in a friendly collective.

Socialist emulation rests on the enormous educational and organising force of example. Under socialism the force of example for the first time encourages mass action, and serves as a means of improving production and a motive force of social progress.

Lenin considered that wide publicity, comparability of results, spread of progressive experience, and material and moral stimuli to work should be the main principles of socialist emulation. In bourgeois society the improvement of production in one factory poses a threat to factories competing with it. Every innovation is the "commercial secret" of the factory applying it. The opposite is the case in socialist society,

where the working people are vitally interested in improving production and the initiative of advanced workers meets with keen response. It stimulates the creative initiative of the masses, evokes a spirit of comradely emulation and is a powerful instrument of their joint progress.

Growth of the cultural and technological level

Another important factor promoting labour productivity is the consistent growth of the cultural

level and technical knowledge of the working people. Scientific and technological progress is directly linked with the improvement of the skills of workers, engineers and technicians. The socialist system creates perfect conditions for all working people to improve their general and technical knowledge.

The improvement of machines and the rise of the cultural level and technological knowledge of the broad masses of working people gradually eliminate the distinctions between physical and mental labour. The educational level of the working class and the collective farmers grows steadily. The 1970 census showed that three quarters of the urban employed population and over half of the employed population in rural areas have a secondary and higher education.

With the spread of general secondary and specialised technical education the bulk of the young people entering independent life have an eight-year education, and a substantial part go to work after finishing the ninth and tenth forms of secondary school. At many enterprises with sophisticated equipment up to a third of the workers have a complete secondary education (10 and 11 forms). The number of collective farmers who have no special profession is declining, while the number of machine operators, specialised farm workers and other skilled personnel with general education and special training is rapidly growing.

At the same time the number of engineers and technicians is steadily increasing and their skill is mounting.

**Scientific organisation of
labour and production**

As early as in the first years of socialist construction Lenin stressed the need to apply the principles of scientific organisation of labour and production. He maintained that in socialist conditions scientific labour organisation is a mighty factor not only in raising labour productivity but also in lightening labour in every way.

The scientific organisation of production and labour is particularly important in present-day conditions and its further perfection is one of the main prerequisites for raising the effectiveness of production. Technological progress, the re-equipment of enterprises and the introduction of better technological processes have assigned high priority to the radical improvement of labour organisation on genuinely scientific principles.

Soviet industry occupies a leading place in the world as regards the technological level of production and the qualification of its workers and specialists. Yet, many enterprises still lag behind in production organisation designed to fuse the equipment and the people handling it in a single production process. This makes the introduction in all enterprises of scientific organisation of labour and production, corresponding to the requirements of modern scientific and technological progress, one of the most urgent tasks of the economy.

Chapter XIV

SOCIALIST PRINCIPLES OF DISTRIBUTION

1. Distribution According to Labour—an Economic Law of Socialism

Social control over the measure of labour and measure of consumption The implementation of the principle "From each according to his ability, to each according to his work" means that society must take account of and control the measure of labour and the measure of consumption of every worker. Lenin considered this a most vital condition for the success of socialist construction. There is a number of objective reasons why such accounting and control is essential.

First, society does not as yet have such an abundance of products that would enable it to meet all the rapidly growing requirements of its members.

Second, labour has not yet become the prime necessity of man; hence, it is necessary to ensure material incentives stimulating every worker to work with maximum productivity for the common good.

Third, there are still very considerable distinctions between town and country, between mental and physical labour. Therefore, the labour of individual workers differs not only in quantity but also in quality.

Social control over the measure of labour and the measure of consumption is an extremely important factor in the struggle for a new, socialist attitude to labour. This form of social stimuli to work has absolutely nothing in common with the exploiter methods of forcing people to work applied under capi-

talism. In that social system the exploiter class uses the threat of hunger to make the exploited classes work. Under socialism society as a whole influences its members by making the share of the social product received by every worker dependent on the extent of his participation in socially useful labour.

Objective necessity of distribution according to labour In any social system the distribution of material wealth depends on the prevailing mode of production. Under socialism distribution is effected according to labour.

Distribution according to labour is an objective law of socialism. Applying this law with increasing success socialist society makes it the basis for the remuneration of labour in all spheres of endeavour. Distribution according to labour is closely bound up with the entire system of socialist management both in the Soviet Union and in other socialist countries.

Remuneration according to labour shows millions of working people the direct connection between the results of labour and the people's material welfare in socialist society. Thus, distribution according to the quantity and quality of labour is a powerful means of making people assimilate a new, conscious, socialist labour discipline, and acquire a feeling of collectivism and is a factor strengthening the relations of cooperation and comradely mutual assistance which are a distinctive feature of socialist relations of production.

Distribution according to labour ensures the direct material interest of the working people in the results of their labour. It shows millions of working people that to live well they have to work well. Material incentives spur on the advanced workers and raise the mass of workers to the level of the advanced.

Distribution according to labour plays a tremendous role in the creation of the material and spiritual prerequisites for the highest phase of communism. This method of distribution is essential for achieving the fastest possible growth of the productive forces of socialist society.

Combination of material and moral stimuli to work In the early years of Soviet power Lenin wrote that solid gangways to socialism and communism should not be built directly on enthusiasm, but with the aid of the enthusiasm engendered by the great revolution and on the basis of personal interest, personal incentive and business principles. Lenin's behest shows that there must be a correct combination of material and moral stimuli to work.

The practice of socialist construction confirms that without the material interest of the workers in the results of their labour it is impossible to raise the country's productive forces, create a socialist economy and lead scores of millions of people towards communism. At the same time socialism evolves ever more powerful and effective stimuli to work. The source of moral stimuli is the radically changed position of the working people in society. It induces them to work better and more productively for the benefit of society. In addition to material stimuli the social approval for the work people perform for society is becoming an enormous driving force of social progress.

Increased economic stimulation of enterprises and further development of the principle of material stimulation are called upon to ensure a correct combination of material and moral incentives to work. The unity of the material interest and moral stimuli is vastly important not only for the economy, but also for the development of a truly communist attitude to labour, for educating the builders of communist society.

2. Wages Under Socialism

Wages at state enterprises

Under socialism labour is remunerated in keeping with the law of distribution according to the quantity and the quality of work done. On the basis of this law socialist society

improves the forms and methods of labour remuneration.

At state-owned socialist enterprises factory and office workers are paid wages. Under socialism wages express the relation between the whole of society, as represented by the state, and the individual factory and office workers whose labour is evaluated according to its quantity and quality.

The wages of the entire working class are the portion of the national income that goes to cover the individual consumption of the workers and is distributed according to labour. Through its state bodies the working class fixes wages in a planned way in the interests of society as a whole. The wage level is determined in such a way as to ensure that alongside a steady rise in the people's welfare, the share of the surplus product available to society should be large enough to meet all its requirements.

The wages policy is designed to stimulate the material interest of factory and office workers, specialists and managers of state enterprises in the results of their labour. The main objective of the wages policy is to steadily increase its stimulating role in the fulfilment of the most important production tasks. The systematic increase in wages is combined with the provision of greater incentives to those workers who contribute a bigger share to the development and improvement of production. The remuneration of labour must be organised in such a way that every worker, engineer and technician should know how much his wages will grow if he improves his production indicators and what share he would receive from the additional income of the enterprise.

In socialist society the size of wages depends mainly on the level of productivity of social labour. Labour productivity must grow faster than the wages. This is a condition that guarantees society sufficient means to satisfy its mounting requirements and to accumulate and expand production.

Rating of work

The organisation of wages in keeping with the economic law

of distribution according to labour implies correct rating of work and a rational grading system.

In order to pay a worker according to the quantity and quality of his labour it is necessary to establish how much work is required to fulfil each job. This is achieved through technical rating—the establishment of time quotas or output quotas (or standards). The constant improvement of technical rating is one of the main tasks of economic development.

The time standard is the amount of time required to fulfil a definite job. The output standard is the quantity of output, or parts, or operations the worker has to make or perform within a certain time—an hour, a working day or a month. It is determined by dividing the working hour (or the working day, or the total number of working hours a month) by the time standard for the production of a unit of output.

The time standard is used predominantly in individual or small batch production, and output standards are used in mass production. To fulfil their organisational role in production, standards must always correspond to the level of technical equipment, technology and organisation of production.

Forms and systems of wages

There are two basic forms of wages at state-owned socialist enterprises: piece-rates and time-

rates. Each of these forms can be either individual or group (collective).

The most widespread form is the piece-rate, under which the worker's earnings are determined by the amount of output, or parts which he produces or the amount of operations he performs. More than two-thirds of the workers employed in Soviet industry are paid according to piece-rate system. Piece-rates make for higher skills, better utilisation of equipment and tend to reduce losses in working time, stoppages and organisational hitches in production.

In some cases the progressive piece-rate system is applied in keeping with which every unit produced over and above the basic quota is paid for at a higher rate, the rate becoming progressively higher. This system cannot be used on a mass scale or permanently because under it a worker's wages can grow quicker than his labour productivity. But in certain cases, when bottlenecks must be urgently abolished, it may be in the interest of the enterprise to apply progressive piece-rates.

Time-rates are used when it is impossible to determine exactly the output of the workers, as, for example, in the remuneration of repair workers, adjusters, crane operators, electricians and the like. Time-rates are used also in some sections of automated production where the workers are engaged mainly in the adjustments, repair and maintenance of machinery.

Material incentives fund

The new system of management creates conditions under which the enterprises in addition to the wage fund are able to set up material incentives fund to reward workers for individual achievements and for the performance of the enterprise as a whole.

The creation of the fund for socio-cultural measures and housing construction further extends the enterprise's possibilities for granting material incentives to its workers. Profit becomes an important internal resource of the enterprise for the material stimulation of factory and office workers. This creates conditions for increasing the material interest of workers in the general results of the enterprise's activity, enhancing the interest of all working people in the growth of production, improving the organisation of labour and raising the enterprise's quantitative and qualitative indicators.

The rise in the share of bonuses and lump sum rewards in the wages of factory and office workers will make for a better combination of the interests of every worker with the interests of the entire staff and society as a whole.

Payment for work
at collective farms

Collective farmers are paid out of the incomes of the collective economy. The increase in the income of the collective farm resulting from the growth of output and decrease of production costs raises the welfare of its members.

The piece-rate is the main form of remuneration at collective farms. The collective-farm board works out and the general meeting of the collective farmers approves the output quotas and rates for every job in keeping with conditions obtaining at a given farm, the skill required to perform a specific job and its complexity and arduousness.

Increasing mechanisation of agricultural production, the growing skills of the collective farmers and improved organisation of labour make it necessary systematically to revise the output quotas and wage rates at collective farms and to fix more suitable ones, just as it is done at industrial enterprises. This ensures a constant rise in labour productivity, increases accumulations for the extended reproduction of the collective economy and promotes the material welfare of the collective farmers. With the improvement of the system of relations within collective farms it becomes necessary to bring the rating, organisation and remuneration of labour at collective farms closer to the level and forms existing at state enterprises.

An important role in strengthening the economic position of the collective farms and improving living conditions in rural areas is being played by the introduction of guaranteed payments at collective farms.

The introduction of guaranteed payments to collective farmers and the further increase in their size are carried out on the basis of the growth of production and the rise in the labour productivity at collective farms, the strict observance of the policy of economy and the constant concern for the advance of the collective farm economy. This is a major step towards the approximation of the living standards in town and country.

3. Public Consumption Funds

Social role of public consumption funds

Alongside the growth of the working people's incomes through remuneration according to labour, a vital role in promoting the welfare of the people is played by the growth of the public consumption funds. These funds finance state expenditures on education, health protection, pensions, maintenance of children at children's institutions and, in future, the introduction of free communal services, and so forth. In socialist society public funds play an enormous role in satisfying the social and cultural requirements of the people. They are particularly important to families with many children.

Free education, medical service, the absence of unemployment and many other advantages of socialism have long since become part and parcel of the life of Soviet people. Such are the indefeasible gains of the Soviet people who have left the capitalist countries far behind in this respect. These benefits are paid for out of public consumption funds whose growth has been particularly fast in the post-war years. The grants and privileges paid out of these funds to the population have increased from 4,600 million rubles in 1940 to 73,000 million in 1972. The growth of public consumption funds considerably promotes living standards in the country.

Types of public consumption funds

Remuneration according to labour will be the basic source of satisfying the people's requirements throughout the period of communist construction. At the same time there is a steady growth of public consumption funds. But this does not undermine the material interest of the working people in the results of their labour. On the contrary, it makes it possible to solve a number of important socio-economic problems in a communist way:

first, the maintenance of the rising generation; Soviet society is gradually and in increasing measure assuming all expenditures connected with this task;

second, the rise of the educational level of the population and the development of culture and science. This includes government outlays on the building of schools, universities, research institutes, theatres, cinemas, etc.;

third, health protection; this is a vast sphere which includes medical services and the organisation of rest and treatment;

fourth, improvement of living conditions through the solution of the housing problem, providing the population with modern houses, communal services and so forth;

fifth, society's concern for incapacitated members; this includes old-age and disability pensions.

The growth of public consumption funds considerably mitigates the inequality as regards property which is inevitable in socialist society since in it remuneration according to work is an objective necessity.

4. Ways of Raising the Living Standard

Indicators of the living standard

The standard of living cannot be characterised by any single indicator, but only by a set of indi-

cators showing the various aspects of people's working and living conditions.

The main indicator of the living standard is the people's real incomes whose size depends on three factors: first, on the size of the money incomes, second, on the price of consumer goods and services, and third, on the size of the public consumption funds. The higher the real incomes the greater is the per capita consumption.

At the same time the standard of living is greatly contingent on working conditions both in industry and agriculture, such as the length of the working day and paid holidays, the level of mechanisation and the intensity of labour and how difficult and harmful it is, its safety and many other factors. In comparing the

standard of life in countries with different social systems it is necessary to take into account the employment index of the working class which depends on the existence and scope of unemployment, and, for the rural population on whether there is agrarian overpopulation and its scope. An important aspect of the living standard of the working people is the pattern of their expenses on the satisfaction of diverse requirements.

Another factor determining the standard of living is housing, health protection, average life-span and the available cultural facilities.

Rise in the living standard is a law of socialism In socialist society the material welfare of the people rises with the expansion of social production, the development of the productive forces, growth in labour productivity and heightening effectiveness of social production. This regularity is conditioned by the main aim of socialist production—the ever fuller satisfaction of the working people's growing requirements.

The growth of the socialist economy is directly connected with a great lightening of labour. In Soviet industry technological progress has resulted in the disappearance of many professions involving heavy manual labour, and the rapid development of science and technology leads to a still further lightening of labour. The back-breaking labour of the individual farmer who tilled land with primitive implements is now a thing of the past.

Since the establishment of Soviet power the average working week in industry has decreased from 58.5 hours in 1913 to 40.7 hours in 1972. Today most workers and office employees work five days a week. The working day of a collective farmer is about 30 per cent shorter than that of the individual peasant. All field work on collective and state farms is done with the help of tractor-drawn implements or self-propelled farm machinery.

The growth of the real incomes of the population increases popular consumption. The volume of retail trade turnover of state and co-operative trading organisations, including public catering establishments, has grown 10.4 times in the period from 1940 to 1972.

In pre-revolutionary Russia the housing conditions of the working people were deplorable to say the least. In the Soviet Union gigantic housing construction is in progress. Between 1918 and 1972 2,649.9 million square metres of living space were built in cities and urban areas. At the same time the share of rent in the family budget decreased substantially. In pre-revolutionary Russia rents swallowed an average of 20 per cent of a working family's budget, and often as much as 30 per cent. Today the expenditure on rent and communal services averages from four to five per cent of the working family's budget.

A striking example of the growing standard of living in the Soviet Union is the fact that the average life-span has almost doubled as compared with pre-revolutionary times.

Higher remuneration of labour is decisive in raising the standard of living. It is the main stimulus for developing production and the principal source of the working people's higher incomes. Therefore the increase in the remuneration of labour will remain the chief means of raising the living standard in the period of communist construction. Thus, from 1971 to 1975 this increase will amount to 30 per cent.

Approximation of the income levels

The growth of the material welfare in socialist society, which is advancing towards communism, is attended by a gradual narrowing of the gap between the high and the comparatively low incomes.

The development of society's productive forces and technological progress raise the cultural and technological level of the working people. An ever greater number of unskilled workers and employees are acquiring skills. The rise in skills and the increase in labour productivity consistently narrow down the gap in

wage levels. As the welfare of the population grows, the wages of people in the low income brackets rise and the gap between the incomes of workers and peasants and also between working people living in different parts of the country gradually diminishes.

This fact should not be regarded in the light of egalitarian distribution. It is based on the approximation of the levels of qualification and labour productivity. The approximation of income levels, therefore, does not contradict the principle of material interest of the working people in their labour, but, on the contrary, makes it still more effective.

The 24th CPSU Congress charted a further broad programme of socio-economic measures to improve the welfare of all sections of the population in the course of the ninth five-year period (1971-1975). The main task of the new five-year plan is to ensure a considerable rise of the people's material and cultural level on the basis of a high rate of development of socialist production.

Chapter XV

SOCIALIST REPRODUCTION. FROM SOCIALISM TO COMMUNISM

1. Socialist Reproduction

Distinguishing features of socialist reproduction

Socialism, which is the most progressive social system, is characterised by extended reproduction.

This type of reproduction embraces three interconnected processes:

first, the reproduction of socialist relations of production, which steadily improve in the course of extended reproduction;

second, the reproduction of the social product, whose scale increases from year to year;

third, the reproduction of labour power in the course of which the working people improve their skills and heighten the productivity of their labour.

Socialist economy develops at a pace which cannot be attained by capitalist economy. Socialism is free of crises of overproduction which are inherent in the nature of capitalism. It is these advantages that make the steady growth of production in all economic spheres a regular feature of socialist extended reproduction.

Under socialism, the wealth, which multiplies as the productive forces develop, is public property. The systematic increase of the social wealth in socialist society is accompanied by a steady rise of the material and cultural level of the working people. Extended

socialist reproduction means a growth of public wealth, on the one hand, and, on the other, a rise in the material and cultural level of the people.

Reproduction of socialist relations

Following the triumph of socialism, the development of the productive forces in all spheres of the economy takes place in conditions of the undivided rule of the socialist economic system. The reproduction of socialist relations leads to the systematic elimination of contradictions and the eradication of the vestiges of capitalism in the economy and the consciousness of the people.

Socialist production relations are constantly improving in the course of extended reproduction. The new system of planning and economic stimulation of production is a major stage in this respect.

The material and spiritual prerequisites for the establishment of the highest phase of communism mature during the entire period of communist construction. Progress in all spheres of socialist production relations logically leads to the gradual elimination of the distinctions between town and country, between classes and social groups of socialist society. It promotes and consolidates communist principles in the relations between workers, peasants and intellectuals and results in the rise of the classless communist society.

The gross social product

Under socialism the bulk of the gross social product is the property of the whole people and some of it is the property of individual collectives of working people. All branches of the economy engaged in production, transportation and storage of material wealth take part in creating the gross social product. The high economic development rates under socialism are reflected in the rapid growth of the social product. In 1972 the gross social product of the USSR was 47 times greater than in 1913 and amounted to 62 per cent of the gross social product of the USA.

The annual social product of socialist society is identified in material (physical) and value form. As regards

its material form the social product is divided into two parts: the means of production designed to re-enter the production process, and the articles of consumption intended for the individual and joint satisfaction of the requirements of members of society.

In their turn, the means of production are divided into two. One part consists of buildings, equipment, rolling stock, farming machinery and other fixed assets of the economy. The other part comprises the assets in turnover: raw materials and half-finished products, fuel and electric power.

The growth of the fixed assets and assets in turnover extends the sphere of socialist labour, increases the wealth of society, lightens labour and raises its productivity and the material and cultural level of the working masses.

The means of production, or the productive fixed assets and assets in turnover, constitute the main part of socialist society's material wealth. The other part does not directly participate in production and consists of housing facilities, buildings and premises for social and cultural purposes: theatres, museums, clubs, schools, parks, etc., all of which are the non-productive assets of the economy.

As regards value, the gross social product is the sum total of values produced by all sectors of the economy. This includes, first, the value of the already expended means of production, second, the newly created value resulting from the labour of workers, collective farmers and the intelligentsia in all spheres of material production. The first of these two parts is used to replace (in value) the expended means of production, the second is placed at the disposal of society to satisfy all its requirements and makes up the national income of socialist society, which will be subsequently discussed.

Planned economy is called upon to adjust the separate parts of the economy in a ratio ensuring the correspondence of the structure of the social product (as regards its material form) with the social designa-

tion of its components in the process of reproduction. This, a very important aspect of planned economy, ensures proportionality in the process of extended reproduction.

The normal course of socialist reproduction depends on the timely and unimpeded realisation of the output of all branches of the economy. This shows the importance of the role which is played in socialist society by the market, that is, by the aggregate conditions for the realisation of commodities. The socialist market where socialist enterprises sell their commodities—the products of socialist production—is organised according to plan. A constant appraisal of the conditions on the market, of the changes taking place on it and in the consumer demand is one of the basic tasks of planned management of socialist economy.

Replacement of the means of production

A definite amount of the means of production—machinery, raw materials and fuel—is expended when the social product is made. The unobstructed and continuous renewal of production on an unchanged scale depends on the replacement of this amount of the means of production out of the annual social product.

Let us assume that 125,000 metal-working lathes and 450 million tons of coal have been used up in a year. That means that the same number of lathes and the same amount of coal must be deducted from the annual product of society and returned to the fixed assets and assets in turnover in the economy to compensate for the expended means of production.

The compensation of the expended means of production must also be ensured in value (money) form. Let us assume that 100,000 million rubles' worth of production was expended during the year. That means that society must be able to replace the means of production valued at the same sum. In socialist society the renewal of the material productive assets is effected in a planned and organised manner.

The ratio between the two departments of social production

Extended socialist reproduction implies definite quantitative relations between economic branches, particularly between the pro-

duction of the means of production (Department I) and the production of consumer goods (Department II).

We have learned above that capitalist extended reproduction demands that the sum of the essential and surplus product of Department I should be of a greater value than the fixed capital of Department II. This quantitative relation must also be established in socialist society, with the difference, however, that this time it is not a question of fixed capital but of the fixed productive assets and the assets in turnover.

In other words, the priority growth of the production of the means of production over the production of consumer goods is a law of extended socialist reproduction. It does not mean, however, that the relation between the growth rates for the two groups remains unchanged at all stages of socialist and communist construction.

At the initial stages of industrialisation in the Soviet Union, when it was necessary to establish a powerful basis for the heavy industry as quickly as possible, it was inevitable that there should have been a considerable difference in the rates of development of the two groups of industry. From 1929 to 1940 the output of the means of production increased at an average annual rate that was almost 70 per cent higher than that of the production of consumer goods. Once a powerful economic potential had been created and the productive forces attained a high level of development it became possible substantially to increase the growth of branches of social production catering to the direct needs of the population. Progress in the development of heavy industry makes it possible to channel considerably more resources into the development of the consumer goods industry. The accelerated growth in the production of consumer goods is an essential con-

dition for the further development of the entire economy, since it is this growth that actuates the material stimuli for boosting production.

Reproduction of labour power Extended socialist reproduction would have been inconceivable without a constant numerical growth of the working people and a steady rise in their cultural and professional level.

Under socialism the main source of replenishing the working class is the natural growth of population. Furthermore, industry is absorbing the surplus labour power forming in agriculture as a result of the mechanisation of production. And, finally, the freeing of women from a greater part of the burden of domestic concerns makes it possible to draw them into the production process. In socialist society skilled personnel is trained according to plan in a large number of educational institutions and also through afterwork training.

The rapid growth and improvement of production in the course of communist construction engenders considerable changes in the occupational structure. The introduction of new labour-saving equipment is above all instrumental in abolishing auxiliary work. The reduction of the administrative and managerial apparatus, further mechanisation of agriculture, creation of conditions enabling many women to spend less time on housekeeping make it possible to increase the number of people engaged in industry and other branches of the economy. At the same time the extensive development of the health service, education and culture requires a rapid increase in the number of people engaged in these sectors. This increase is dictated by the need to enlarge the social consumption funds, promote education and expand the service industry. In socialist society the expansion of the non-productive sectors of the economy makes for the fuller satisfaction of the working people's requirements and improves their living and working conditions.

The changes in the utilisation of society's labour resources impose serious tasks on the system of mass

education and retraining of workers, and on the planned redistribution of labour power.

2. The National Income

Growth of the national income in socialist economy

The national income is the gross social product minus the part that goes to replace the expended means of production. In other words the national income is the sum total of the added value created by society in the given year. Under socialism the national income is placed wholly at the disposal of society and its growth secures the successes of the socialist economy and the rise in the living standard.

Like the gross social product, the national income of socialist society is expressed in material (physical) and value (money) form.

In its physical form the national income of socialist society consists, first, of the mass of consumer goods produced during the year and, second, of the mass of the added means of production, remaining after part of it has been used to replace those expended during the year, or, in other words, the means of production designated for the further expansion of production.

In its value form the national income of socialist society is the aggregate of values produced by both the necessary labour and the surplus labour of the workers, collective farmers and the intelligentsia in the sphere of material production. These values are designated to satisfy the personal and public requirements of the members of society and cover state needs and the expansion of production.

Two principal factors stimulate the growth of the national income, namely, the increase in the number of workers employed in different branches of material production, and the rise in labour productivity.

The increase in the number of workers is rather limited. Moreover, a considerable part of the increment in the number of employed workers is absorbed by the non-productive sphere, primarily education and the

health service. Therefore, the rise in labour productivity is the principal source of the growth of the national income.

Under socialism the rapid expansion of industry, agriculture and other branches of the economy ensures a national income growth rate that is unattainable under capitalism. The following figures characterise the growth in the absolute size of the national income in the USSR: if we take the national income in 1940 at 100, then in 1945 it was 83, in 1950 it amounted to 164 and in 1965 to 597; in the eighth five-year period (1966-1970) the national income rose by 41 per cent. In the ninth five-year period it will rise by 37-40 per cent, and 80 to 85 per cent of the total national income increment will be obtained through higher labour productivity.

Socialist accumulation Socialist accumulation is essential for extended socialist reproduction. Accumulation means that a definite share of the national income is systematically channeled into the expansion of the productive assets of society, construction of new enterprises and expansion, modernisation and reconstruction of the existing ones.

There is a radical difference between socialist and capitalist accumulation as regards their sources, the methods by which they are effected and their social consequences.

First, the source of socialist accumulation is the surplus labour of the working people who are free of exploitation and who work for themselves and for their society, while accumulation of capital is carried out at the expense of the surplus labour squeezed by the capitalists out of the workers whom they are exploiting.

Second, socialist accumulation is carried out in a planned way and is designed to multiply the social wealth and raise the living standard, while the accumulation of capital takes place at random, in the course of competition with the aim of increasing the capitalist profits.

Third, socialist accumulation increases public property, while accumulation of capital increases capitalist private property.

Socialist accumulation is essential for raising the standard of living, while the accumulation of capital makes the life of the working people even more insecure. Socialist accumulation strengthens the socialist economic system, makes for crisis-free economic development and ensures the right to work for all citizens, while the accumulation of capital exacerbates the antagonistic contradictions of capitalism and gives rise to unemployment and crises.

First and foremost socialist accumulation ensures the rapid and steady growth of the country's productive assets. By 1971 the fixed productive assets of the USSR had surpassed the 1940 figures by 8.1 times; in this period the fixed assets of industry had increased by more than 11 times.

Distribution of the national income.
Consumption and accumulation funds

The national income is the sum total of the means—in physical and monetary form—at the disposal of society for the satisfaction of its various requirements.

The requirements of society can be divided into four basic groups. First, the remuneration of workers, collective farmers, and the intelligentsia in keeping with the economic law of distribution according to labour. Second, the requirements of the population which are satisfied at the expense of social funds, including the development of education, science, culture, health protection, the improvement of living conditions of the working people, payment of old-age and disability pensions, government assistance to mothers of many children and to unmarried mothers, and so forth. Third, the expenditure on the maintenance of the central and local bodies of the state apparatus and on defence. Fourth, the expenditure on the non-productive funds of the economy and on the creation of reserve funds.

In accordance with these main requirements of socialist society the national income is divided into two basic funds: the accumulation and consumption funds. The first three groups of requirements are paid for out of the consumption fund, the fourth from the accumulation fund. For many years now the consumption fund in the Soviet Union accounts for about 75 per cent of the national income, the accumulation fund for 25 per cent. The rise in the effectiveness of social production increases socialist accumulation, on the one hand, and on the other, raises the living standard.

The growth of the national income is essential for raising the standard of life in socialist society. Under socialism there is a direct connection between the growth of the national income and the improvement of the living standard: the higher the national income the better is the welfare of the people.

Extended reproduction and capital construction The material basis for extended reproduction is created by capital investments financing the construction programme of the economic plan. Year after year centralised capital investments in the USSR and other socialist countries finance a vast building programme: hundreds of factories, mines and power stations, new towns and townships, state and collective farms, irrigation systems and power transmission lines, millions of flats and residential houses, thousands of schools, kindergartens, nurseries and hospitals.

Under the new system of economic management extended socialist reproduction takes place not only on the basis of centralised capital investments but also through the expansion, improvement and modernisation of production financed out of the production development funds formed at enterprises from depreciation deductions and profits. This enables the basic cells of the economy—the enterprises—to contribute substantially to the planned, balanced development of the socialist economy and to improve its structure by introducing more progressive and prospective production methods.

The main indicator in evaluating the performance of building organisations is the rapid commissioning of productive capacities paralleled by a high quality of construction. The key trend in the development of the building industry is its industrialisation, essential to accelerate the building process and lower its costs. A very important task is to speed up and improve the quality of construction and raise the effectiveness of capital investments.

3. Circulation Processes in Socialist Economy

Characteristic features
of the circulating
processes under
socialism

The circulating processes are an important aspect of socialist reproduction. They include: first, the circulation of goods, that is,

the trade turnover and the material and technical supply of all branches of the economy; second, the entire sphere of finance and credit relations, and, third, the money circulation.

In the socialist economic system circulation processes are planned. They are based on public property and are not aimed at ensuring private capitalist profits, but at satisfying the requirements of the people and promoting uninterrupted socialist production and reproduction.

The bulk of the means of production—a considerable portion of the social product—is covered by the material and technical supply system. The uninterrupted supply of equipment, raw materials, fuel, power and other means of production is crucial for the normal course of socialist reproduction. The new system of economic management broadens the scope for improving material and technical supply. Direct links between supplier and consumer enterprises are being broadly developed, and measures are being taken decisively to improve the system of material and technical supply and prepare the transition to the planned

distribution of equipment, raw materials, semi-manufactures through wholesale trade.

**Forms of trade
and its tasks**

In socialist economy not only production but also trade develops according to plan. The most important part of the trade turnover, namely, the entire state and co-operative trade, is conducted on a planned basis.

There are three basic forms of trade in the Soviet Union: state, co-operative and collective-farm trade.

State and co-operative trade dominates the trade turnover in the USSR. These two forms of Soviet trade rely on socialist production in industry and agriculture. The whole marketable output of state enterprises and a considerable part of the foodstuffs produced on the collective farms are sold through the state and co-operative trade system. These comprise the bulk of consumer goods. The retail prices of the goods handled by state and co-operative trading establishments are fixed in a planned way.

Alongside state and co-operative trade, there is collective-farm trade. The existence of this type of trade stems from the nature of collective-farm and co-operative property. On collective-farm markets goods are sold by the collective farms, which realise part of the output of their socialised economy, and by individual collective farmers, who sell a portion of the products received from the farm and part of the products obtained from their subsidiary plots. The prices on the collective-farm markets are regulated by supply and demand. As state and co-operative trade improve, the prices of the collective-farm market drop under the influence of the planned prices of these two types of trade.

**Monopoly of
foreign trade**

The state monopoly of foreign trade protects the domestic market of the socialist countries against attempts of economic aggression on the part of the capitalist countries. All commercial transactions

with foreign countries are the exclusive right of the socialist state and its bodies.

The foreign trade of the Soviet Union, a most important form of economic relations between the USSR and other countries, is a state monopoly. From the very outset the monopoly of foreign trade thwarted all the attempts of world capitalism to contact capitalist elements in the country. It enabled the socialist economy to subordinate foreign trade to the interests of socialist construction.

Foreign trade plays a major role in the economy of all socialist countries. It serves mainly as a means of developing and expanding trade between the countries of the world socialist system of economy, and at the same time is instrumental in promoting contacts between the socialist countries and the industrial capitalist and young developing countries.

Finance and credit system under socialism The socialist state must have definite resources to satisfy its various needs. Its principal source of revenue are the incomes of state-owned enterprises and economic organisations.

The gross proceeds minus the production costs form the enterprise's net income (profit) whose size depends on the quantity and quality of the sold output, the production costs and the ratio between the costs and the prices at which the output is sold.

The money incomes of the enterprise provide it with essential monetary resources. A certain part of the monetary income of the enterprise goes to the general state fund of monetary resources for use by other enterprises and to cover other state expenditure. The money goes to satisfy the state's general needs, partly directly and partly through the general state fund of monetary resources. A definite part of the incomes of collective farms and co-operative enterprises is also channeled into the general state fund of monetary resources. Moreover, the free money resources of collective farms and co-operative enterprises, organisations and the population at large may also be

placed at the disposal of the fund for a certain period and at a definite interest and be used to satisfy the general requirements of the state.

Thus, the redistribution of the monetary resources mobilises part of the incomes, accumulations and savings of enterprises, institutions, organisations and the population, on the one hand, and, on the other, transfers the money thus collected to other enterprises, institutions and organisations. This redistribution is closely connected with the enforcement of financial control. All these operations are the functions of the financial system which includes the state budget, the banks, state insurance bodies and savings banks.

The state budget is the basic link in the socialist financial system.

In a socialist country the state budget is closely tied up with the entire economy, for it concentrates the bulk of the country's financial means and allocates the necessary sums to satisfy almost all the requirements of the state.

In socialist society credit draws the temporarily idle monetary resources into the economic turnover and satisfies the temporary need for cash. This determines the specifics of the credit methods of redistributing money resources as compared with the financial and budgetary methods mainly connected with incomes and accumulations.

Credit serves the economic turnover of enterprises in all phases of production and circulation of commodities. The USSR State Bank is the main agency for short-term crediting and settlements in the economy, the cash and issuing centre of the country and also the agency for settlements of accounts with foreign countries. The money resources providing for the movement of the assets in turnover and assets on hand are concentrated in the State Bank which is also the agency through which all the settlements are made of accounts between enterprises, institutions and organisations. It also handles the accounts of the state bud-

get with the national economy and payments into the budget.

The financial and credit system plays an extremely important role in the socialist economy and its normal functioning is vital for the uninterrupted growth of socialist reproduction.

The strict observance of the state financial discipline in keeping with which all enterprises have to fulfil their obligation to the state and discharge their contractual obligations vis-à-vis other enterprises and organisations accurately and punctually and make their payments, deliver goods and pay for deliveries on time, is essential for the normal functioning of the financial and credit system. It is also of the utmost importance to prevent the immobilisation of financial means and material values and to speed up the circulation of assets in turnover.

All measures ensuring thrifty and efficient management strengthen socialist economy as a whole and its financial system in particular.

4. From Socialism to Communism

Two phases of communism

The founders of Marxism disclosed the scientific difference between socialism and communism.

They showed that these are two stages, two consecutive phases, two steps in the economic maturity of communist society: socialism is the lower stage, communism the higher. There is no wall separating socialism from communism. In the course of its development socialism logically grows into communism.

Socialist society, as the first phase of communism, is characterised above all by the fact that the means of production are no longer privately owned but are common property, and secondly, by the fact that each worker is remunerated by society according to the quantity and quality of the labour he spends on social production.

But people have different abilities, and so long as the socialist law of distribution according to labour is in operation, a certain inequality among the members of society is inevitable.

There will be full social equality of all members of society when communism is built. High labour productivity on the basis of rapid scientific and technological progress will create an abundance of material and cultural benefits that will make it possible to apply the communist principle "From each according to his ability, to each according to his needs".

The building of communist society is the ultimate objective of the revolutionary struggle of the working class, the supreme goal of the Marxist-Leninist Party.

Having completed the building of socialism the Soviet Union entered a new stage of its historical development—the stage of building the higher phase of communism. The building of communism has become the immediate practical task of the Soviet people.

Communism is a classless social system with one form of public ownership of the means of production and full social equality of all members of society; under it, the all-round development of people will be accompanied by the growth of the productive forces through continuous scientific and technological progress; all the springs of co-operative wealth will flow more abundantly and there will be a transition from distribution according to labour to distribution according to needs. Communism is a highly organised society of free, socially conscious working people, a society in which public self-government will be established, a society in which labour for the good of society will become the vital requirement of everyone, a necessity recognised by one and all, and the ability of each person will be employed to the greatest benefit of all people.

The development of socialism into communism is a process governed by objective laws. Communism can develop only when socialism has been firmly established. The transition to communism is effected

through the steady growth, development and strengthening of the foundations of socialist society. The flourishing of the socialist system creates all the essential prerequisites for the gradual transition to the highest phase of communism. This transition takes place in the order and at the rate at which its pre-conditions accumulate and develop.

Communism can be built provided there are the following conditions: a high level of the productive forces of socialist society, a rise in the standard of living, improvement of the production relations and a growth in the consciousness and the ideological and political level of all members of society. These conditions depend on the creation of the material and technical basis of communism, the formation of communist social relations and the education of the new man. All these conditions are indissolubly interlinked.

**Creation of the material
and technical basis of
communism**

The material basis of communism grows out of the material and technical basis of socialism through its rapid development, consolidation and all-round improvement. This, however, is not only a quantitative growth but also a leap in the course of the development of the social productive forces, a transition to a new quality.

The transition from socialism to communism is a continuous process, and, consequently, so is the building of the material and technical basis of communism.

The Programme of the CPSU points out that the creation of the material and technical basis of communism means complete electrification of the country and perfection on this basis of the techniques, technologies, and organisation of social production in all the fields of the national economy; comprehensive mechanisation of production operations and a growing degree of their automation; widespread use of chemistry in the national economy; vigorous development of new, economically effective branches of production, new types of power and new materials; all-round and rational utilisation of natural, material and labour

resources; organic fusion of science and production, and rapid scientific and technical progress; a high cultural and technical level for the working people; and substantial superiority over the more developed capitalist countries in productivity of labour, which constitutes the most important prerequisite for the victory of the communist system.

Taken together these main tasks characterise the scientifically elaborated plan for the comprehensive development of the productive forces of socialist society.

The creation of the material and technical basis of communism is the main economic task of the Party and the Soviet people throughout the entire period of communist construction. The improvement of production relations goes in step with the development of the productive forces of socialism.

In the Soviet Union the task of creating the material and technical basis of communism is being accomplished at a time when mankind has entered the period of the greatest scientific and technological revolution the world has ever witnessed. This revolution is the natural outcome of the whole preceding development of science and technology. It is connected with the harnessing of nuclear energy, the conquest of outer space, the development of chemistry, the automation of production and other enormous achievements in science and technology.

Only socialism is able to use the fruits of scientific and technological revolution in the interests of society. This revolution opens up unlimited prospects for man's further mastery over the nature, and is a qualitatively new stage in the development of the productive forces of society.

**The way to one
communist property**

In the process of communist construction the two forms of socialist property gradually draw closer together and ultimately fuse into one communist property. The formation of one communist property is effected through the growth, strengthening and

improvement both of state property (that of the whole people) and of collective-farm and co-operative property.

In socialist society the property of the whole people is the basis of the livelihood of the entire population, including the collective farmers. At the same time the development and strengthening of the collective-farm system promote and strengthen the features characteristic of the property of the whole people. The fusion of collective-farm and co-operative property with the property of the whole people will not come about as a result of the liquidation of the former, but through the rise in the level of its socialisation produced with the assistance of the socialist state.

The road to the rapprochement of the two forms of property is at the same time the road leading millions of peasants towards communism. The drawing together of the two forms of socialist property and the transformation of agricultural labour into a form of industrial labour will signify the disappearance of the distinctions between workers and peasants. This will put an end to the socio-economic and cultural distinctions between town and country. The gradual approximation of physical and mental labour will eradicate the distinctions between workers and collective farmers on the one hand and the intelligentsia, on the other.

The eradication of all distinctions between classes is a gradual and lengthy process which leads to an ever greater social homogeneity and will be completed with the building of full communist society.

**Transformation of
labour into man's vital
requirement**

Defining the difference between the two phases of communist society, Lenin indicated that socialism presupposes social labour combined with strict accounting, control and supervision on the part of the organised vanguard, the advanced section of the working people, and fixing the measure of labour and its remuneration. Communism is a system in which people are used to carrying

out their social duties without a special apparatus of coercion, in which work, without remuneration, for the common good, becomes universal.

The creation of the material and technical basis of communism radically changes the conditions of labour and becomes the material basis for the gradual development of socialist labour into communist labour. The development of new equipment and technology will be used radically to improve and lighten labour conditions, reduce the working day and improve amenities, eliminate arduous labour and subsequently do away with all unskilled labour. Rapid scientific and technological progress will promote the cultural and technical and the general educational level of the people.

In the period of communist construction labour becomes the vital requirement of all. This transformation is the natural outcome of the radical changes taking place during the building of communism. It embraces both the material sphere and the spiritual life of society and is prepared by the whole course of the development of socialist production relations, the process of their transformation into communist production relations. Labour will no longer be a means of subsistence but will become a truly creative activity, a source of joy.

Communist education of the working people

Besides developing the productive forces and improving the production relations, the building of communist society also includes the moulding of the new man—the builder of communism. The education of all working people in the spirit of dedication to communism, instilling in them a communist attitude to labour and to the social economy, the final eradication of the survivals of bourgeois views and morals is one of the most important conditions ensuring the successful advance towards communism. Of particular significance is the communist education of the young people—the future builders of communist society.

The moulding of the new man is effected through the active participation of the people in communist construction and the development of communist principles in all spheres of social activity, under the influence of the educational work carried on by the Party, the state, and various social organisations. All facilities for ideological work—the press and radio, the cinema and television—play an important part. A very significant role in shaping a communist world outlook is played by science and the arts. As an integral and harmonious system of philosophical, economic and socio-political views, Marxism-Leninism forms the basis for the shaping of a scientific world outlook in all the working people of Soviet society.

Enhancement of the role of the Communist Party in the period of communist construction

The period of communist construction, it is pointed out in the Programme of the CPSU, is characterised by a further enhancement of the role and importance of the Communist Party as the leading and guiding force of Soviet society.

The enhancement of the role of the Communist Party derives from the widening scope and complexity of the tasks of communist construction, the increasing creative activity of millions of working people in the administration of state affairs and of production, the further development of socialist democracy, the growing role of the theory of scientific communism and the importance of communist education of the working people.

Unlike all the preceding socio-economic formations, communist society develops as a result of the conscious activity of the masses led by the Marxist-Leninist Party. The Party guides the entire many-sided activity of the builders of communism giving it an organised, planned and scientifically based character. The Party performs this role, being the vanguard of the entire people, mighty in its unbreakable unity with the broadest sections of the working people, armed with the most advanced scientific theory of Marxism-

Leninism and understanding the laws of social development.

As the CC CPSU Report to the 24th Congress justifiably noted, the question of the guiding role of the Communist Party in the building of a new society has become a crucial issue of the struggle between Marxists-Leninists and all sorts of revisionists. The principled stand of the CPSU, its uncompromising struggle for the purity of the Marxist-Leninist teaching is of international significance and, as the fraternal parties underline, makes for the correct orientation of the Communists and millions of working people.

Chapter XVI

THE WORLD SOCIALIST SYSTEM OF ECONOMY

1. Formation of the World Socialist System

Rise and development of the world socialist system With the victory of socialism in the USSR there emerged alongside the capitalist system, the socialist system of economy. With the victory of socialism in a large group of other countries after the Second World War socialism became a world system.

The rise and consolidation of the world socialist system greatly altered the balance of forces between socialism and capitalism throughout the world. The transformation of socialism into a world system was a striking demonstration of capitalism's historical doom. It ushered in a new stage in the struggle between the two social systems, the struggle that has become the principal feature of the general crisis of capitalism. The main contradiction of our time, the contradiction between developing socialism and moribund capitalism, has entered a new, higher stage. The principal distinguishing feature of the present-day world is that the world socialist system is becoming the decisive factor in the development of human society. This is the result of the logical course of history at the current stage of social development.

The world socialist system is a social, economic and political community of free, sovereign nations advanc-

ing towards socialism and communism, united by their community of interests and aims and the close bonds of socialist internationalism. The socialist countries have an economic basis of the same type—public ownership of the means of production; a state system of the same type—the rule of the people led by the working class; a single ideology—Marxism-Leninism; common interests in defending their revolutionary gains and their national independence against imperialist encroachments; and a single supreme goal—communism.

The world socialist system is the decisive force in the anti-imperialist struggle. It furnishes indispensable assistance to all forces fighting for liberation. As a result of far-reaching qualitative changes which have occurred in the socialist countries and in their relations, the world socialist system is becoming stronger and is enhancing its international role.

The Soviet Union has entered the period of communist construction. In most socialist countries multi-sectoral economy has been abolished and the foundation of socialism has been completed. The fraternal co-operation and mutual assistance between the socialist countries has attained all-round development. The growing might of the socialist system guarantees the inviolability of the political and socio-economic gains of its countries.

Revolutionary transformations in socialist countries have radically altered society's class structure. The alliance of the working class and the peasantry has become stronger. Economic foundations for the exploitation of man by man have been eliminated.

Convincing proof of socialism's decisive superiority over capitalism is offered by the consistent rise in the standard of living in socialist countries.

The world socialist system has amassed vast experience that is of the utmost significance for determining the ways of further development for mankind. Now it is the experience of a big group of countries and not only that of just one country that has proved

the inevitability of the revolutionary replacement of the capitalist system by the socialist system, and has shown the decisive advantages of socialism.

"Socialism has shown mankind the prospect of deliverance from imperialism," stated the International Meeting of Communist and Workers' Parties held in 1969. "The new social system based on public ownership of the means of production and on the power of the working people is capable of ensuring the planned, crisis-free development of the economy in the interest of the people, guaranteeing the social and political rights of the working people, creating conditions for genuine democracy, for real participation by the broad masses of people in the administration of society, for all-round development of the individual and for the equality and friendship of nations. It has been proved in fact that only socialism is capable of solving the fundamental problems facing mankind."

**Fundamental distinctions
between the world
socialist and the world
capitalist systems**

The world socialist system emerged and develops in a totally different way from the world capitalist system. Capitalism became a world system by drawing an increasing number of countries in the whirlpool of the world capitalist market and spreading the relations of capitalist exploitation throughout the world. The growth of the economic ties of the world capitalist system was promoted by the financial subjugation of some countries by others and the colonial enslavement of hundreds of millions of people by a handful of imperialist powers.

Socialism became a world system as a result of the liquidation of the relations of capitalist exploitation in a number of countries, the establishment of new relations between them, relations of friendly co-operation and fraternal mutual assistance. Socialism appeared on the world scene in the form of a consolidated community of countries whose mutual relations

are based on the principles of proletarian Marxism-Leninism, internationalism.

Unlike capitalism, which divides people, socialism unites people by establishing close relations based on full equality, comradely co-operation and mutual assistance. All socialist countries take part in developing and strengthening the world socialist system. The existence of the Soviet Union, its experience and its assistance considerably facilitate the building of socialism in the other countries of the world socialist community.

Embodied in the world socialist system are new, formerly unknown international political, economic and cultural relations. They were engendered by the very nature of the socialist relations of production and the economic laws of socialism.

The unity and cohesion of the socialist countries are an earnest of the victories of socialism

The world socialist system is not the simple sum total of countries comprising it. It is a basically new phenomenon in the life of mankind that has tremendously enhanced the might of socialism. As far back as 1920 Lenin brilliantly predicted the need to take into account the "tendency towards the creation of a single world economy, regulated by the proletariat of all nations as an integral whole and according to a common plan. This tendency has already revealed itself quite clearly under capitalism and is bound to be further developed and consummated under socialism".

This tendency has been embodied in the world socialist system which is the forerunner of universal socialist economy. One of the most important factors of the strength and inviolability of the world socialist system is the process of the rapprochement of the fraternal socialist countries which, however, is taking place not without certain difficulties.

Blazing the trail to communism, the Soviet Union facilitates and accelerates the movement towards communism for the entire socialist community. Communist construction in the USSR enhances the economic

might and defence potential of the world community of socialist states. It creates increasingly favourable conditions for deepening the economic and cultural co-operation between the USSR and other socialist countries, for furnishing assistance and support to these countries. Thus, communist construction in the USSR is fully in keeping with the vital interests of all socialist countries.

The Communist Party of the Soviet Union and the fraternal Marxist-Leninist Parties of other socialist countries proceed from the need to cement the unity of the world socialist system. This unity is achieved in the struggle against the schemes of imperialism, against its efforts to breed discord between the socialist countries, against revisionist and reformist elements undermining the unity of the socialist states by counterposing them against each other and reviving nationalism which is being exploited by imperialist saboteurs.

2. The Economic Co-operation and Mutual Assistance of the Socialist Countries

Socialist international division of labour The development of the world socialist system evolves a new type of international division of labour.

Socialist international division of labour develops in the course of the extensive economic, scientific and technological co-operation of the socialist countries. It takes into account the specific features of every country of the world socialist system, her natural wealth and the availability of qualified personnel. This division of labour is largely instrumental in speeding up the economic and cultural upsurge in each socialist country and in the world socialist system as a whole.

The international socialist division of labour raises the effectiveness of social production and gives added momentum to scientific and technological progress,

thus promoting high rates of growth of the economies and of the standard of life in all socialist countries.

As the international socialist division of labour develops it extends the limits of the conscious, rational economic management that socialism substitutes for the anarchy of capitalist production. This multiplies the strength of each socialist country and of the entire world socialist community. The increasing utilisation of the advantages of the international socialist division of labour on the basis of the Leninist principles of proletarian internationalism and fraternal mutual assistance strengthens the world socialist system.

Development of economic co-operation between socialist countries

As the world socialist system grows and strengthens the economic co-operation between the countries comprising it develops and acquires more perfect forms.

Initially their economic co-operation was based primarily on bilateral foreign trade and scientific and technological exchange. Assistance in the form of credits granted by some countries to others was also practised in increasing measure.

As the world socialist system continued to grow other forms of economic co-operation appeared. Established in 1949 the Council for Mutual Economic Assistance began to play an ever greater role in this respect. The Council draws up recommendations aimed at promoting economic, scientific and technological co-operation between the fraternal countries, and patterns new forms of co-operation in the spheres of industry, transport, trade, financial links and international currency settlements.

The economic co-operation and fraternal mutual assistance of the socialist countries contribute enormously to the fulfilment of the economic development plans, scientific and technological progress and steady improvement of the living standard. Thanks to the comprehensive economic co-operation with the Soviet Union and between themselves, the European socialist countries in an historically brief span of time created

their own coal and metallurgical basis, and established numerous branches of the extractive industry, a power industry and some new branches of the engineering and chemical industries. The scale of production has increased in the socialist community and dozens of new branches mass producing thousands of new types of manufactured goods have been established.

The economic co-operation of the socialist countries is a powerful factor augmenting the strength of socialism in the economic competition with capitalism. The further upswing of the world socialist economy is being achieved by combining the measures to develop the economy of every socialist country with their joint efforts to strengthen and expand their economic co-operation and mutual assistance.

In view of the growth of the world socialist system it is necessary to achieve a still closer economic and political rapprochement of the fraternal countries. This task is being solved on the basis of their co-ordinated national economic plans and the long-term programme of the further development of socialist integration adopted by the Council for Mutual Economic Assistance in 1970.

The main forms of the economic co-operation between socialist countries

Mutual trade, specialisation and co-operation of production, scientific and technological exchange and joint organisation of various types of production are among the most important forms of economic co-operation between socialist countries.

Measures aimed at widening specialisation and co-operation of production occupy an important place in the economic co-operation between socialist countries. Socialist specialisation and co-operation of production are developing on the basis of the full observance of the interests of every participant. Specialisation and co-operation of production make for better utilisation of the natural wealth; they stimulate the economy of every country to a greater degree and make it pos-

sible to expand at a faster rate those industries which have the most favourable conditions in every given country. This opens prospects for the most rational utilisation of the productive capacities and skilled personnel, heightens the technical level and the scale of production and organises assembly-line and large-series production.

Of vital importance for accelerating technological progress in the socialist countries is their scientific and technological co-operation. The co-ordination of their efforts in the field of theoretical and applied research and designing is becoming a serious factor ensuring the rational utilisation of the resources of the world socialist system.

The existence of the world socialist system enables the socialist countries to find joint solutions to complex tasks.

A striking example of the economic co-operation between socialist countries is the construction of the giant Druzhba oil pipeline linking the Soviet Union, Poland, the German Democratic Republic, Czechoslovakia and Hungary. The piping of Volga oil to the banks of the Oder, Vistula and Danube costs only a fraction of railway costs. Each country using the pipeline has contributed her share to the construction of this giant project.

**Approximation of the
levels of economic
development of the
socialist countries**

The existence of the world socialist system, the development of economic co-operation between the fraternal countries and the international division of labour have created a real possibility of closing the gap in the economic and cultural levels between individual countries they had inherited from capitalism.

Socialist inter-state relations rest on full equality of large and small countries. The mutual assistance and exchange of experience, notably the mutual exchange of scientific and technological achievements, and co-operation in the development of natural resources ensure the approximation of the economic develop-

ment levels of the countries of the world socialist system.

Within the framework of the world socialist system the formerly backward countries have in a short span of time drawn considerably closer to the level of the advanced socialist countries thanks to the assistance of the latter. But the degree of the development of the productive forces in the socialist countries is still not the same. The rise and the approximation of the general economic level of the socialist countries is being achieved mainly through the full utilisation by each country of her domestic resources, the improvement of the forms and methods of economic management, consistent application of the Leninist principles and methods of socialist management and the effective use of the advantages of the world socialist system.

3. Economic Competition of the Two World Systems

The principle of peaceful coexistence between the two systems and their economic competition The transition from capitalism to socialism extends over a long period of history. During that time socialist states exist side by side with the capitalist states. The simultaneous existence of two opposing social systems is an indisputable historical fact, an objective inevitability of the contemporary epoch and one that gives rise to the question: what should be the relations between countries with different social systems?

Marxism-Leninism teaches that socialist countries should consistently adhere to the Leninist principle of peaceful coexistence between countries with different social systems. This principle takes into account that the people of any country independently choose their social system. Every country moves from capitalism to socialism only when the objective and subjective conditions for doing so have matured within her.

At the same time it is obvious that the principle of peaceful coexistence is inapplicable in the relations between the oppressors and the oppressed. There can be no peaceful coexistence in the class struggle between the bourgeoisie and the proletariat, and in the national liberation struggle in colonies and dependencies, and in the struggle between socialist and bourgeois ideologies.

The principle of peaceful coexistence implies the possibility and the necessity to develop normal economic relations between the countries in question. Consequently, the socialist countries favour the development of economic ties with the countries of the capitalist system on mutually advantageous lines, without discrimination and without restriction of the rights of either party.

Coexistence implies peaceful economic competition between the two world systems. The competition between them embraces not only the economy but also other aspects of social life. But the economy is its main arena.

Development of the economic competition between the two systems The economic competition between socialism and capitalism has passed through two main stages. The first covered the period when the Soviet Union was the only socialist country in the world and had to compete against the capitalist world on its own. The second stage commenced when socialism transcended the limits of a single country and became a world system, when the competition between socialism and capitalism developed into a competition between the two world systems.

Having asserted itself in the USSR the socialist system of economy proved its supremacy as early as the initial stage of the competition with capitalism. At the second stage this competition acquired a number of important features owing to the vast expansion of its geographic and economic scale. The advantages and successes of socialism were thrown into bold relief. Now it is not only the economic victories of the Soviet Union, but also the progress in the economic construc-

tion in all the countries of the socialist community and the new type of relations between them that demonstrate the gigantic possibilities for the rapid hurgeoning of the productive forces inherent in the socialist economic system.

In view of the competition and struggle between the two social systems it is extremely important to sustain the growth of the material forces of socialism. This is vital for the rapid achievement and consolidation of the victory over imperialism in all fields of social life.

The principal contribution of the world socialist system to the common struggle against imperialism is its increasing economic might. The rapid economic advance of the socialist countries which is faster than that in capitalist countries, socialism's emergence to leading positions in some fields of the scientific and technological progress, the trail blazed into outer space by the Soviet Union are fruits of the creative activity of the people of the socialist countries which are decisive in tipping the scales in favour of the forces of peace, democracy and socialism to the detriment of the forces of imperialism.

Economic assistance to the developing countries

An ever increasing role in the economic competition between the two world social systems is being played by the rapidly expanding economic co-operation between the countries of the socialist system, on the one hand, and the young sovereign states which arose on the ruins of the colonial empires, on the other. The existence of the world socialist system and the weakening of imperialism makes it easier for the peoples of these countries to overcome their age-old backwardness and poverty and win economic independence.

Of great importance to the young sovereign countries is the fact that socialism has taken the lead in economic development rates and has outstripped capitalism in a number of key sectors of scientific and technological progress. Thanks to this the former monopoly of the highly advanced capitalist countries in supplying

the means of production and also in the spheres of technical assistance, loans, credits and so forth has become a thing of the past.

The young sovereign states which have won political independence through a long and bitter struggle, are receiving increasing economic assistance and all-sided support from the socialist states. This assistance is vital in solving the urgent problems arising before these countries as they go about overcoming the grim heritage of the colonial system.

The countries of the world socialist system supply the young sovereign countries with the necessary equipment and other items, grant them credits with which to purchase equipment and pay for the technical assistance on easy terms. Assistance to these countries coming from the Soviet Union and other socialist states has neither political nor military strings attached to it.

For the young sovereign countries the friendly relations with the Soviet Union and other socialist states are a decisive factor in strengthening their freedom and independence and in the development along the road of social progress. As distinct from the imperialist powers, which are again endeavouring to subjugate the peoples, the countries of the world socialist system earnestly support the process of liberation of peoples from colonial slavery regarding it as one of the prime prerequisites for the downfall of the world of capitalist exploitation.

POLITICAL ECONOMY

A Condensed Course in Political Economy

A simple, concise, and comprehensive work which explains in a fundamental, scientific manner the development of capitalism, imperialism, state monopoly capitalism, and the proletarian revolution. For new students of Marxism it is a superb primer. For advanced scholars it can serve as an excellent, quick reference.

SUOMALAINEN
KIRJAKAUPPA OY

Among New World Paperbacks for the Study of Marxist Sources

- CAPITAL, by Karl Marx (Unabridged) 3-Vols. (0018)
 ANTI-DUHRING by Frederick Engels (0008)
 V.I. LENIN, SELECTED WORKS (0300)
 THE GERMAN IDEOLOGY by Karl Marx and Frederick Engels (0302)
 THE ORIGIN OF THE FAMILY by Frederick Engels (0359)
 ON THE UNITED STATES by V.I. Lenin (0262)
 DYNAMICS OF SOCIAL CHANGE: A Reader in Marxist Social
 Science. H. Selsam, D. Goldway, & H. Martel eds. (0264)
 BIRTH OF THE COMMUNIST MANIFESTO. Dirk J. Struik ed. (0320)
 ECONOMIC AND PHILOSOPHIC MANUSCRIPTS OF 1844
 by Karl Marx. Dirk J. Struik ed. (0053)
 ON HISTORICAL MATERIALISM by Karl Marx,
 Frederick Engels and V.I. Lenin (0411)
 FUNDAMENTAL PROBLEMS OF MARXISM
 by G.V. Plekhanov (0073)
 THE PEASANT WAR IN GERMANY by Frederick Engels (0152)
 PRE-CAPITALIST ECONOMIC FORMATIONS by Karl Marx (0165)
 MARX-ENGELS SELECTED WORKS (0184)
 THE ROLE OF FORCE IN HISTORY by Frederick Engels (0172)
 CLASS STRUGGLES IN FRANCE by Karl Marx (0030)
 DIALECTICS OF NATURE by Frederick Engels (0048)
 THE POVERTY OF PHILOSOPHY by Karl Marx (0163)
 THE OPEN PHILOSOPHY AND THE OPEN SOCIETY by
 Maurice Cornforth (0142)
 THE CIVIL WAR IN THE UNITED STATES by
 Karl Marx and Frederick Engels (0028)

For a complete catalog write

INTERNATIONAL PUBLISHERS

381 Park Avenue South, New York, N.Y. 10016

